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ABSTRACT

This publication provides guidance to schools that participate in the Federal Direct Student Loan Program. It provides details on how the Direct Loan Program operates and on Direct Loan policies and procedures. The 12 chapters include: (1) "Overview of the Direct Loan Program"; (2) "Basic Components of Direct Loans"; (3) "Direct Loan Program Participant Responsibilities"; (4) "Participating in the Direct Loan Program"; (5) "Establishing Borrower Eligibility for Direct Loans"; (6) "Direct Loan Origination, Disclosure Statements, and Master Promissory Notes"; (7) "Drawing Down and Disbursing Direct Loan Funds"; (8) "Change Records and Loan Adjustments"; (9) "Reconciling Direct Loans"; (10) "Cash Management Issues for Direct Loan Schools"; (11) "Student Status Confirmation Report (SSCR)"; and (12) "Servicing Direct Loans." Appended are a directory for the Direct Loan Program; a glossary; the Code of Federal Regulations, Part 685; the Direct Loan Quality Assurance Planning Guide; and Title IV electronic processes. (SM)

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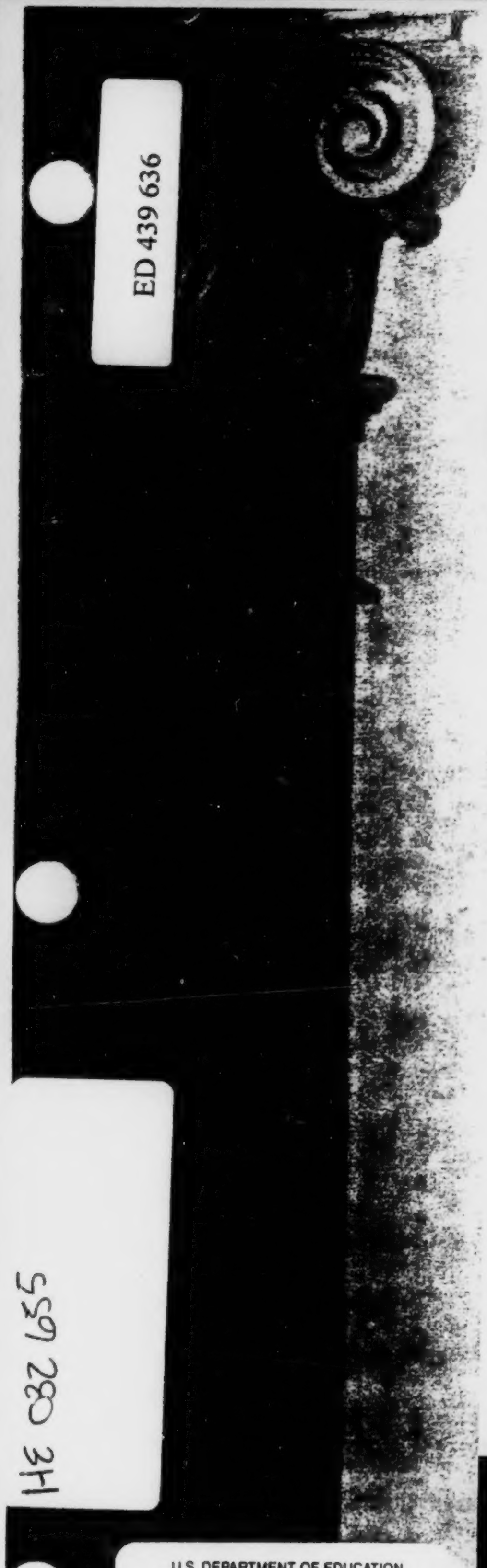

Direct Loans

School Guide

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

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Direct Loans

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THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

How to Use This Guide

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How to Use This Guide

Purpose

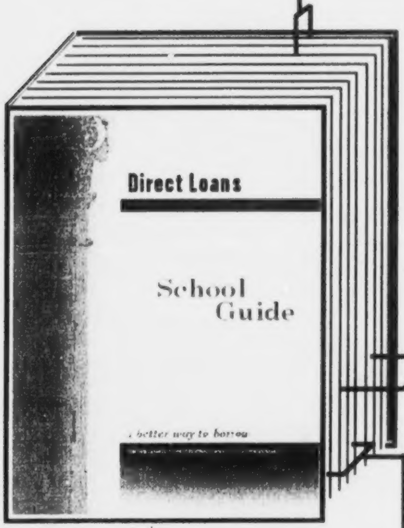
The primary purpose of the *Direct Loan School Guide* is to provide guidance to schools that participate in the Direct Loan Program. It provides detailed information about how the Direct Loan Program operates and on Direct Loan policies and procedures.

Some parts of the guide offer recommended ways to help schools meet responsibilities they take on when they sign a Direct Loan amendment to their Title IV Program Participation Agreement with the U.S. Department of Education (ED). Other parts of the guide describe federal laws and requirements in regulations.

Because the Direct Loan Program relies on extensive electronic reporting between schools and ED, this edition of the *Direct Loan School Guide* emphasizes the need for an effective and efficient electronic-management system, including:

- maintaining accurate, well-organized records,
- using automated systems successfully,
- submitting required reports in an accurate and timely manner,
- complying with federal laws and regulations, and
- providing quality service to student and parent borrowers.

What This Guide Contains



Part One: The Program (Chapters 1 - 3) describes components of the Direct Loan Program and the responsibilities of borrowers (both students and parents), schools, and ED.

1. **Overview of the Direct Loan Program** delineates the types of Direct Loans and the general responsibilities of the various participants in the Direct Loan Program.
2. **Basic Components of Direct Loans** details the features of each type of Direct Loan, such as borrowing limits, interest rates, deferment options, and repayment options.
3. **Direct Loan Program Participant Responsibilities** explains who does what when in the Direct Loan Program. It also addresses the effect of loan defaults.

Part Two: The Process (Chapters 4 - 12) describes how schools perform specific functions in the Direct Loan Program.

4. **Participating in the Direct Loan Program** details how schools apply to take part in the Direct Loan Program, the three loan origination options, and management considerations for Direct Loan schools.
5. **Establishing Borrower Eligibility for Direct Loans** defines when students and parents are eligible for Direct Loans and how a school determines that eligibility criteria are met.
6. **Direct Loan Origination, Disclosure Statements, and Master Promissory Notes** outline procedures for originating Direct Loans and handling promissory notes.
7. **Drawing Down and Disbursing Direct Loan Funds** discusses how Standard Origination schools, Origination Option 1 schools, and Origination Option 2 schools interact with ED to determine need for Direct Loan funds, request drawdown of funds, and disburse funds to students.
8. **Change Records and Loan Adjustments** covers the range of adjustments schools can make to Direct Loans.
9. **Reconciling Direct Loans** details the procedures involved in monthly reconciliation and year-end closeout of Direct Loan funds.
10. **Cash Management Issues for Direct Loan Schools** examines the procedures schools follow to properly maintain Direct Loan funds and handle any excess cash.
11. **Student Status Confirmation Report (SSCR)** gives information about scheduling and processing reports on student borrowers' enrollment status.
12. **Servicing Direct Loans** explains the role of the Direct Loan Servicing Center (DLSC) in collecting Direct Loans from borrowers.

The **appendices** are designed to supplement the information presented in the main chapters of the *Direct Loan School Guide.*

- **Appendix A** pulls together important Direct Loan Program contacts and information sources.
- **Appendix B** provides a comprehensive glossary of terms and acronyms related to the Direct Loan Program.
- **Appendix C** contains the entire text of the Direct Loan Program regulations (34 CFR 685), which govern what borrowers, schools, and ED must do to participate in the program.
- **Appendix D** consists of ED's *Quality Assurance Planning Guide*, an optional tool schools can choose to use as they set up the Direct Loan Program's required quality assurance system.
- **Appendix E** details ED's electronic capability requirements for schools that participate in federal Title IV student aid programs, including the Direct Loan Program.
- The **Index** helps you locate information quickly in the *Direct Loan School Guide.*

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Using the *Direct Loan School Guide*

The clear, two-column format allows schools to use the *Direct Loan School Guide* to perform several functions. For example, it can serve as a:

- training guide for new employees (especially in conjunction with ED's Direct Loan Overview Workshop and its Participant's Guide),
- reference guide for any employee, and
- basis for the school's Direct Loan Program policies and procedures manual.

The wide inside column contains text, charts, and example boxes. The narrower outside margin refers readers to supplemental sources (regulations, Web sites, and other ED publications) about topics in the text. These margin notes use the following easily identifiable icons:

Take a Look

Refers readers to other sections in the *Direct Loan School Guide.*

Laws & Regulations

Provides citations.

For Your Information

Offers sidebar information.

Where to Call

Presents important telephone numbers.

Web Site

Lists pertinent Internet addresses.

Reference

Lists related ED publications.

From the Archives

Gives historical background.

Two notes:

- Regardless of how a school uses the guide, it is only a guide and does not replace federal laws and regulations. School personnel remain responsible for familiarizing themselves with all relevant primary source documents.
- This edition of the *Direct Loan School Guide* is written on the basis of laws, regulations, policies, and procedures in effect for the 1999-2000 award year. Schools should be aware, however, that these are subject to change. It is a school's responsibility to be aware of any such changes and remain in compliance with current rules.

Part One: The Program

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Overview of the Direct Loan Program .... page 1-1

Chapter 2
Basic Components of Direct Loans .... page 2-1

Chapter 3
Direct Loan Program Participant Responsibilities .... page 3-1

Direct Loans

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THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Chapter 1: Overview of the Direct Loan Program

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Chapter 1

Overview of the Direct Loan Program

The William D. Ford Federal Direct Loan Program (Direct Loan Program) was authorized under Title IV of the Higher Education Act of 1965, as amended (HEA) when the Student Loan Reform Act of 1993 was enacted. It began operation in the 1994-95 award year. A major source of federal student financial assistance, the Direct Loan Program provides loans to eligible borrowers to cover postsecondary education costs. Direct lending uses funds provided by the federal government, requires only a single application, and makes loans available directly through participating institutions.

Laws & Regulations

- HEA, Title IV, Part D
- 34 CFR 685

How the Direct Loan Program Benefits Schools

Simplified Paperwork—Borrowers use only one application—students use the Free Application for Federal Student Aid (FAFSA) and parents use the Direct PLUS Loan application/promissory note—to begin the Direct Loan process. Borrowers consolidating loans use the Direct Consolidation Loan application. Loan information, except for the promissory note, is transmitted and acknowledged electronically.

Streamlined Administration—Disbursements and adjustments are processed more efficiently, particularly since there is no need to obtain lender or guaranty agency approvals.

Electronic Transfer of Funds from a Single Source—Waiting for funds from multiple lenders is no longer necessary. The improved cash flow reduces the need for short-term, emergency student loans and allows for funds to be disbursed more efficiently.

Control Over the Loan Process—Borrower questions are answered quickly and accurately. Schools are given reliable information about receiving funds and on current loan record and promissory note status.

Assured Access to Capital—One single, unlimited source of capital ensures that eligible students are fully funded for the entire school year. Because the federal government provides program funds, there is no risk of loss of funds due to market conditions.

Autonomy and Flexibility—Schools may begin to participate in the Direct Loan Program at any time during the year. Schools are also free to participate in both the Direct Loan Program and Federal Family Education Loan (FFEL) Program, with the understanding that no student may receive both types of loans during the same loan period.

How the Direct Loan Program Benefits Students

Loans Obtained Quickly and Easily—Only one application—students use the Free Application for Federal Student Aid (FAFSA) and parents use the Direct PLUS Loan application/promissory note—is needed to apply for a Direct Loan. Borrowers consolidating loans use the Direct Consolidation Loan application. Electronic data and funds transfers reduce processing time and allow for more efficient disbursal of funds. Students do not need to endorse bank checks.

One Loan Holder, One Contract—The U.S. Department of Education (ED) is the only loan holder the borrower will have during the life of the loan. This gives the borrower one contact source for questions involving repayment, deferment, forbearance, consolidation, and other loan issues. Also, since only one monthly payment is made, paperwork and opportunities for confusion and error are reduced.

Flexible Repayment Options—Borrowers can choose from a variety of repayment plans, including an Income Contingent Repayment (ICR) Plan. This flexibility allows borrowers to pursue postsecondary education opportunities with minimal risk of burdensome monthly payments or the possibility of defaulting on loans.

Types of Direct Loans

The following types of loans are available through the Direct Loan Program:

- **Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)** are made to students (undergraduate, graduate, and professional) who demonstrate financial need. Borrowers are not charged interest while they are enrolled in school at least half time and during grace periods and deferment periods.
- **Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)** are made to students (undergraduate, graduate, and professional). They do not require students to demonstrate financial need. Borrowers are responsible for the interest that accrues during any period over the life of a Direct Unsubsidized Loan.
- **Federal Direct PLUS Loans (Direct PLUS Loans)** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time at a postsecondary school. Interest on a Direct PLUS Loan begins to accrue when the first installment is disbursed.
- **Federal Direct Consolidation Loans (Direct Consolidation Loans)** allow borrowers (students or parents) to combine one or more federal education loans into one new Direct Loan requiring only one monthly payment. There are three types of Direct Consolidation Loans:
    - Direct Subsidized Consolidation Loans,
    - Direct Unsubsidized Consolidation Loans, and
    - Direct PLUS Consolidation Loans.

Even if a borrower consolidates his or her federal education loans into more than one category, the borrower still:

- has only one Direct Consolidation Loan and
- makes only one monthly payment.

Basic Responsibilities of Direct Loan Program Participants

The main participants in the Direct Loan Program are the borrowers (students or parents), the schools, and ED. Each participant has a specific role.

- **Student borrowers** must complete the Free Application for Federal Student Aid (FAFSA), participate in loan counseling, sign a completed master promissory note, and repay the loan.
- **Parent borrowers** must complete and sign the required application/promissory note, meet established credit standards, borrow on behalf of an eligible student, and repay the loan.
- **Schools** must meet and maintain specific eligibility criteria, meet and maintain specific criteria to originate loans, and sign a Direct Loan amendment to their Program Participation Agreement with ED.
- **ED** is responsible for funding, servicing, and collecting loans; creating and maintaining database systems; providing support services to schools; and maintaining oversight of the program. ED provides support services primarily through regional Client Account Managers (CAMs), who work directly with schools to resolve Direct Loan issues.

Basic student and institutional eligibility requirements under the Direct Loan Program are consistent with other Title IV programs. Specific information about Title IV eligibility can be found in:

- the *Compilation of Student Financial Aid Regulations*, which contains the Direct Loan Program regulations as well as General Provisions requirements,
- Direct Loan brochures, guides, and publications available on ED's Direct Loan Web site, and
- the *Student Financial Aid Handbook*.

For Your Information

At this writing, master promissory notes are not available for parent borrowers. ED anticipates master promissory notes will be developed for Direct PLUS Loan borrowers in the 2000-01 academic year to be used beginning with the 2001-02 academic year.

Resources

- *Compilation of Student Financial Aid Regulations*
- http://ed.gov.DirectLoan
- *SFA Handbook*

Direct Loans

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THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

Basic Components of Direct Loans

School Guide

Chapter 2: Basic Components of Direct Loans

Chapter 2

Basic Components of Direct Loans

This chapter describes the four types of Direct Loans: Direct Subsidized Loans and Direct Unsubsidized Loans, which are for students; Direct PLUS Loans, which are for parents; and Direct Consolidation Loans, which are for students or parents.

For each Direct Loan type, this chapter describes the basic components, including:

- loan limits and interest rates;
- loan fees, late charges, collection charges, and prepayment;
- grace periods, deferments, and forbearance;
- loan repayment; and
- loan discharge.

Loans for Students: Direct Subsidized Loans and Direct Unsubsidized Loans

In general, Direct Subsidized Loans and Direct Unsubsidized Loans are for postsecondary school students who are enrolled at least half time in eligible programs of study. The terms and conditions governing Direct Subsidized Loans and Direct Unsubsidized Loans are substantially the same, but there are important differences as well. This section reviews the basic components of these loans, noting the similarities and differences.

Take a Look

See Chapter 5 for details about Direct Loan Program eligibility requirements for students.

Loan Limits

Laws & Regulations

- HEA, Title IV, Parts B and D
- 34 CFR 685.203

The Higher Education Act of 1965, as amended (HEA), and the Direct Loan Program regulations specify how much students may borrow in Direct Subsidized Loans and Direct Unsubsidized Loans. This includes the annual and aggregate maximum loan amounts, that is, the highest amount any student may borrow in an academic year and in total.

Annual Loan Limits

The following chart shows the maximum annual loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans.

Direct Subsidized Loans and Direct Unsubsidized Loans Combined Annual Loan Limits

1st year undergraduate

- dependent student—$2,625[1]
- independent student—$6,625[2]

2nd year undergraduate

- dependent student—$3,500[1]
- independent student—$7,500[3]

3rd, 4th, and 5th year undergraduate

- dependent student—$5,500[1/6]
- independent student—$10,500[4/6]

Graduate/professional

- all students*—$18,500[5/6]

Footnotes

1. For dependent students, the annual loan limit is also the maximum subsidized loan limit.
2. The maximum subsidized amount is $2,625.
3. The maximum subsidized amount is $3,500.
4. The maximum subsidized amount is $5,500.
5. The maximum subsidized amount is $8,500.
6. Health profession students who could have borrowed from the defunct Health Education Assistance Loan (HEAL) Program may borrow additional unsubsidized loans up to the maximum HEAL amount for the student's health professions discipline.

* For Title IV federal student aid programs, all graduate and professional students are considered independent students.

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About Combined Annual Limits

The annual loan limits dictate the maximum combined total of Direct Subsidized Loans and Direct Unsubsidized Loans a student may borrow. See the chart on the previous page for actual annual loan-limit amounts.

These limits include a student's outstanding subsidized and unsubsidized loan totals under *both* the Direct Loan Program and the Federal Family Education Loan (FFEL) Program, even if the student previously consolidated any or all of these loans. Once the loans are repaid in full or in part, a student may reapply for Direct Subsidized Loans or Direct Unsubsidized Loans.

- Direct PLUS Loans under either program are not included in the assessment of a student's outstanding subsidized and unsubsidized loan totals; they are the parent's—not the student's—loans.

Take a Look

- See page 2-37 for details about Direct Consolidation Loans.
- See page 2-31 for details about Direct PLUS Loans.

Example

James is in a one-year program at The Baking School. He's a dependent student, so he may not borrow more than $2,625 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan.

James is eligible for a $1,000 Direct Subsidized Loan. As a result, he can't borrow more than a $1,625 Direct Unsubsidized Loan.

$2,625 Combined Annual Direct Loan Maximum
− $1,000 Direct Subsidized Loan
= $1,625 Direct Unsubsidized Loan

Effect of Dependency Status and Year in School

The annual loan maximum takes into consideration a student's dependency status and year in school. Of course, there are other eligibility requirements as well. Chapter 5 of this guide explains dependency status as well as other Direct Loan eligibility requirements.

Take a Look

See Chapter 5 for details about borrower eligibility.

Loans must be prorated when a student is enrolled:

- in a program containing fewer weeks, clock hours, or credit hours than the statutory academic year or
- in a program that is longer than an academic year, but the final period of study is shorter than an academic year.

Here are two examples of how to prorate Direct Loans for students.

Example #1

Sharon, a dependent student, goes to Fine College of Art, which is a quarter-term school. Fine College of Art has a 30-week academic year, which consists of three quarter terms.

Sharon is in a four-year baccalaureate program. But it's taken more than four years for Sharon to finish the program because she took two leaves of absence. She's now in the final stretch of her academic program. All she needs to do is complete one quarter term as a full-time student, then she'll get her degree.

- As a fourth-year, dependent, undergraduate student, Sharon is not allowed to borrow more than $5,500 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan for the academic year.
- But Sharon is enrolled for one-third of the academic year (one quarter term out of three).
- This means she may not borrow more for the term than $1,834 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan funds.

$$\frac{\text{\$5,500 Combined Annual Direct Loan Maximum}}{\text{3 (one-third of the academic year)}} = \text{\$1,834 (Sharon's Combined Direct Loan Maximum for the Quarter Term)}$$

Example #2

Hector is an independent student enrolled in a Web-site design and administration program at The Computer School (TCS). This is a 650-clock-hour, 28-week program, although TCS's academic year is 900 clock hours and 30 weeks long.

Hector is considered a first-year student. As a result, he is not allowed to borrow more than $6,625 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan for the academic year.

- ✦ Because Hector is enrolled for less than a full academic year,
- ✦ TCS must prorate how much in Direct Loans he may borrow by comparing two fractions and taking the lesser of the two.

$$\frac{\text{650 clock hours in program}}{\text{900 clock hours in academic year}} \qquad \frac{\text{28 weeks instructional time in program}}{\text{30 weeks instructional time in academic year}}$$

$$650/900 = .72 \qquad 28/30 = .93$$

- ✦ The lesser fraction is for clock hours (.72).
- ✦ TCS multiplies $6,625 by .72 to calculate the maximum Hector can borrow in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan.

$6,625 X .72 = $4,770 (Hector's combined Direct Loan maximum for the 650-clock-hour program)

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Additional Direct Unsubsidized Loan Amounts for Dependent Students

A dependent student may borrow additional Direct Unsubsidized Loan funds—up to the loan limits for independent students—if his or her parents are likely to be precluded by exceptional circumstances from borrowing a Direct PLUS Loan *and* if his or her family is otherwise unable to provide the student's expected family contribution. Any time a dependent student borrows additional Direct Unsubsidized Loan funds, the school must document the reason in the student's file. "Exceptional circumstances" include but are not limited to:

- a Direct Loan school chooses not to offer Direct PLUS Loans,
- the parent is turned down for a Direct PLUS Loan because of adverse credit,
    - If a school has good reason to believe a parent's Direct PLUS Loan application will be denied because of adverse credit, it can award the student additional Direct Unsubsidized Loan funds without the parent first applying—and being rejected—for a Direct PLUS Loan. However, a parent borrower having previously been denied a loan is not an acceptable reason for awarding a student additional Direct Unsubsidized Loan funds. The school must base its decision to bypass the application process on the parent borrower's current eligibility for a Direct PLUS Loan under requirements in 34 CFR a685.200(b).
- the parent receives only public assistance or disability benefits (this must be documented in the student's file),
- the parent is incarcerated (this must be documented in the student's file), or
- the parent's whereabouts are unknown (this must be documented in the student's file).

Beginning July 1, 2000, a school's decision to award additional unsubsidized funds to a dependent undergraduate student may *not* be based on a parent's inability to borrow in a program in which the school does not participate. For example, a Direct Loan school that does not participate in either Direct PLUS Loans or FFEL Program PLUS Loans will not be able to award additional unsubsidized funds to dependent students under any circumstances.

Take a Look

See Chapter 5 for details about when schools can have parents bypass the Direct PLUS Loan application process.

- However, as an example, a Direct Loan/FFEL school that participates in FFEL Program PLUS Loans but not in Direct PLUS Loans, may award additional unsubsidized Direct Loan funds to a student on the basis of a parent's inability to borrow a FFEL Program PLUS Loan, as long as the FFEL Program PLUS Loan was otherwise available to the parent.

Higher Annual Loan Limits for Health Professions Students

Under certain circumstances, health professions students who would have borrowed from the now defunct Health Education Assistance Loan (HEAL) Program may be eligible for higher Direct Unsubsidized Loan limits.

Regardless of whether a school previously participated in the HEAL Program, for any loan period that begins on or after May 1, 1999, the increased limits for unsubsidized loans are available for students enrolled in the health professions disciplines that were funded under the HEAL Program (see GEN-98-18 for guidance on prior loan periods). Additionally, the health professions program at an institution must be accredited by an approved accrediting agency. The health professions disciplines whose students are eligible for the increased funding and the approved accrediting agency for each discipline are:

- allopathic medicine accredited by the Liaison Committee on Medical Education;
- osteopathic medicine accredited by the American Osteopathic Association, Bureau of Professional Education;
- dentistry accredited by the American Dental Association, Commission on Dental Accreditation;
- veterinary medicine accredited by the American Veterinary Medical Association, Council on Education;
- optometry accredited by the American Optometric Association, Council on Optometric Education;
- podiatric medicine accredited by the American Podiatric Medical Association, Council on Podiatric Medical Education;

- pharmacy accredited by the American Council on Pharmaceutical Education;
- public health accredited by the Council on Education for Public Health;
- chiropractic medicine accredited by the Council on Chiropractic Education, Commission on Accreditation;
- health administration graduate programs accredited by the Accrediting Commission on Education for Health Services Administration; and
- clinical psychology accredited by the America Psychological Association, Committee on Accreditation.

Aggregate Loan Limits

The combined aggregate loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans are in a chart below.

Direct Subsidized Loans and Direct Unsubsidized Loans: Combined Aggregate Loan Limits

Dependent undergraduate

- combined subsidized and unsubsidized—$23,000*
- maximum subsidized—$23,000*

Independent undergraduate

- combined subsidized and unsubsidized—$46,000*
- maximum subsidized—$23,000

Graduate/professional

- combined subsidized and unsubsidized—$138,000**
- maximum subsidized—$65,500

Footnotes

* The only undergraduate program that has been eligible for the now defunct Health Education Assistance Loan (HEAL) Program loans is the five-year Bachelor of Pharmacology program. ED is establishing an aggregate unsubsidized loan limit of $70,625, less the aggregate amount of any subsidized loans made to the student, for those undergraduate pharmacy students who are eligible to receive increased amounts of unsubsidized loans because of the phase-out of the HEAL Program.

** For health professions students who would have been eligible to borrow from the HEAL Program, the combined aggregate subsidized and unsubsidized limit is $189,125. The maximum subsidized portion remains $65,500.

As with combined annual Direct Loan limits, the aggregate limits include a student's outstanding subsidized and unsubsidized loan totals under *both* the Direct Loan and the FFEL Programs, even if the student has consolidated any or all of these loans. Once the loans are repaid in full or in part, a student may reapply for Direct Subsidized Loans or Direct Unsubsidized Loans.

Take a Look

- See page 2-37 for details about Direct Consolidation Loans.
- See page 2-31 for details about Direct PLUS Loans.

- Direct PLUS Loans under either program are not included in the assessment of a student's outstanding subsidized and unsubsidized loan totals; they are the parent's—not the student's—loans.

In determining whether a borrower has reached the aggregate loan limit, only the unpaid principal balance from the original loan amounts is counted. Any portion of a borrower's outstanding principal balance that is the result of capitalized interest is excluded.

Interest Rates

Laws & Regulations

- 34 CFR 685.202(a)

Direct Subsidized Loans and Direct Unsubsidized Loans have the same interest rate. The interest rate is variable on an annual basis, but it is capped at 8.25 percent. This means that the interest rate on Direct Loans for students can change from year to year but will not go above 8.25 percent.

Charging Interest

For Direct Subsidized Loans, ED *does not* charge interest while borrowers are enrolled at least half time in school or during grace periods and deferment periods. ED charges interest during all other periods, that is, during repayment periods and forbearance periods.

For Direct Unsubsidized Loans, ED *does* charge interest over the entire life of the loan. This includes in-school periods, grace periods, deferment periods, forbearance periods, and repayment periods.

Calculating Interest Rates

Laws & Regulations

- HEA, Title IV, Section 455(b)

The rate is determined on June 1 each year and applies to the subsequent 12-month period from July 1 to June 30. The formula ED uses to calculate the interest rate is in the HEA.

- The formula starts with the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1.
- To this "average" Treasury-bill rate, ED then adds an additional percentage.

- The resulting sum is the interest rate for Direct Subsidized Loans and Direct Unsubsidized Loans for the year.

From time to time, Congress has enacted changes to the HEA that affect the amount of the additional percentage ED adds. As a result, not all Direct Loans for students have the same interest rate (although the interest rate cap has always been 8.25 percent since the Direct Loan Program began in 1994).

- The interest rates for Direct Loans for students disbursed on or after July 1, 1998 are:
  - for in-school, grace, and deferment periods: 91-day Treasury bill bond equivalent rate + 1.7 percent; and
  - for all other periods (such as forbearance and repayment): 91-day Treasury bill bond equivalent rate + 2.3 percent.
- The interest rates for Direct Loans for students disbursed on or after July 1, 1995 but before July 1, 1998 are:
  - for in-school, grace, or deferment periods: 91-day Treasury bill bond equivalent rate + 2.5 percent; and
  - for all other periods (such as forbearance and repayment): 91-day Treasury bill bond equivalent rate + 3.1 percent.
- The interest rate for student loans first disbursed before July 1, 1995 is:
  - for *all* periods: 91-day Treasury bill bond equivalent rate + 3.1 percent.
  - There is no difference in interest rates on the basis of borrower status, for example, being in school versus being in repayment.

For academic year 1999-2000, the interest rates were recalculated based on the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, 1999. These recalculated interest rates will be effective for loans disbursed to students from July 1, 1999 to June 30, 2000.

Take a Look

- See page 2-15 for details about grace periods.
- See page 2-15 for details about deferment periods.
- See page 2-27 for details about forbearance periods.
- See page 2-19 for details about repayment.

For Your Information

July 1, 1999 - June 30, 2000 interest rates for Direct Loans for students for:

- Loans first disbursed on or after July 1, 1998
  - In-school, grace, & deferment—6.32%
  - Other periods—6.92%
- Loans first disbursed on or after July 1, 1995, but before July 1, 1998:
  - In-school, grace, & deferment—7.12%
  - Other periods—7.72%
- Loans first disbursed before July 1, 1995:
  - In-school, grace, & deferment—7.72%
  - Other periods—7.72%

Capitalizing Interest

Laws & Regulations

- 34 CFR 685.202(b)

Capitalizing interest means adding unpaid, accrued (accumulated) interest to the principal balance of a loan (that is, the total amount borrowed). During certain periods, borrowers can pay interest on an ongoing basis or allow interest to accrue and capitalize.

- ✦ For example, a Direct Unsubsidized Loan borrower can either pay the interest while he or she is in school or allow the interest to accrue and be capitalized.

Interest capitalizes when a borrower's unpaid accrued interest is added to the borrower's principal balance.

Take a Look

- See page 2-27 for details about forbearance.
- See page 2-19 for details about repayment.
- See page 2-15 for details about deferment.

Unpaid accrued interest capitalizes whenever a borrower changes status.

- ✦ For Direct Subsidized Loans:
  - ◇ Unpaid interest that accrued during a forbearance period will be capitalized at the end of the forbearance period.
- ✦ For Direct Unsubsidized Loans:
  - ◇ Unpaid interest that accrues before a repayment period begins is capitalized when the loan enters repayment.
  - ◇ Unpaid interest that accrues during a deferment period or forbearance period is capitalized at the end of the respective period.
- ✦ For Direct Subsidized Loans *and* Direct Unsubsidized Loans:
  - ◇ Unpaid interest that accrued while borrowers repay using the Income Contingent Repayment (ICR) Plan is capitalized on a yearly basis.
  - ◇ ED has the authority to capitalize unpaid interest on Direct Loans that go into default.

Loan Fees

Laws & Regulations

- 34 CFR 685.202(c)

ED charges a loan fee of 3 percent of the principal amount of the loan on all Direct Subsidized Loans and Direct Unsubsidized Loans for 1999-2000 disbursed on or after August 15, 1999.

- Direct Subsidized Loans and Direct Unsubsidized Loans disbursed before August 15, 1999 carry a 4 percent loan fee.
- All Direct PLUS Loans continue to have a 4 percent loan fee.

The loan fee is deducted from the loan proceeds through prorated amounts taken from each disbursement of the loan.

If a Direct Loan is canceled (adjusted downward to $0) or a portion of the loan amount is adjusted downward by the school to comply with the HEA or applicable regulations, ED eliminates or reduces the loan fee that pertains to the downward-adjusted portion of the disbursement.

Take a Look

- See page 2-32 for Direct PLUS Loan fees.
- See Chapter 8 for details about adjusting Direct Loan amounts.

Late Charges

ED is allowed to require borrowers to pay a late charge of up to six cents for each dollar of a required monthly payment (or portion thereof) not paid within 30 days of its due date. Currently, ED is not charging late fees.

Laws & Regulations

- 34 CFR 685.202(d)

Collection Charges

ED may assess collection charges before or after a loan goes into default. When a borrower who is not in default on a Direct Loan does not pay an installment when it is due, ED can require the borrower or endorser to pay for any collection costs in excess of routine collection costs. An example of nonroutine collections costs is the cost of processing checks returned for insufficient funds.

If a borrower is in default on a Direct Loan, ED can hold the borrower or endorser responsible for other additional costs, such as the cost of litigating collection of the defaulted loan.

Laws & Regulations

- 34 CFR 685.202(e)

Prepayment

A prepayment occurs when a borrower:

- pays all or part of a loan before a payment is due or
- pays an amount in addition to the amount required for a monthly payment on the loan.

Laws & Regulations

- 34 CFR 685.211(a)

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Direct Loan borrowers can prepay at any time without penalty, that is, without paying an additional charge.

If a prepayment amount is less than the monthly payment the borrower owes, ED applies the prepayment first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal.

When a borrower makes a prepayment that equals or is more than the monthly repayment installment amount, ED:

- applies the prepaid amount first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal;
- advances the due date of the next payment, unless the borrower requests otherwise; and
- notifies the borrower of any revised due date for the next payment.

Example

Elizabeth's payments are $50 a month; they are due the first of each month. For the payment due June 1, Elizabeth sends $150.

- The first $50 is her June 1 payment.
- If there are no collection costs or outstanding interest, the next $50 is Elizabeth's July 1 payment.
- If there are no collection costs or outstanding interest, the next $50 becomes her August 1 payment.

Elizabeth does not owe another payment until September 1.

If Elizabeth had asked that the payments not be advanced, the additional $100 would go toward paying off the principal, and Elizabeth would still owe a payment on July 1. Not advancing the payment shortens the time Elizabeth's loan is in repayment and reduces the total amount of interest she would have to pay on her loan.

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Grace Periods

The grace period is the six-month period before a loan enters repayment.

- The grace period starts the day after a borrower ceases to be enrolled as at least a half-time student at an eligible institution.
- It ends six months later, on the day before the loan repayment period starts.
- A grace period may end more than six months after it begins if the borrower is on active duty with the military.

During the grace period, Direct Subsidized Loan borrowers are not required to make payments on the loan principal and are not charged interest. Direct Unsubsidized Loan borrowers are not required to make payments on the loan principal, but they *are* responsible for the interest that accrues.

If a student returns to school at least half time before the grace period ends, the student may again postpone loan repayment while in school, and the student will be entitled to a full six-month grace period after terminating enrollment or after dropping below half-time status.

Laws & Regulations

- 34 CFR 685.207(b) & (c)

Take a Look

See page 2-35 for details about grace periods for Direct PLUS Loans for parents.

Deferment

Deferment refers to periods during which payments of principal on Direct Loans are postponed. No interest is charged to borrowers on Direct Subsidized Loans during periods of deferment. However, interest accrues and is charged to borrowers on Direct Unsubsidized Loans. Unsubsidized loan borrowers may choose either to pay the interest or to have it capitalized (added to their loan principal).

Once repayment begins, borrowers are entitled to deferments if they meet certain requirements. To receive a deferment, however, borrowers must request—and be granted—deferments by ED. Borrowers should continue making loan payments until they are notified that ED has approved the deferment.

Usually, a deferment period begins on the same date as the condition that makes the borrower eligible for a deferment, such as becoming unemployed or beginning rehabilitation training. A deferment may be granted retroactively for as much as six months.

Laws & Regulations

- 34 CFR 685.204

Take a Look

See Chapter 3 for details about how defaulted Direct Loans affect borrowers.

Borrowers who are in default on federal education loans or owe overpayments on a federal grant lose eligibility for deferments. Borrowers can regain eligibility by repaying the loans in full or by making satisfactory repayment arrangements.

In general, there are six types of authorized deferments. Borrowers may obtain deferments for:

- in-school student status,
- study in an eligible fellowship program,
- study in an approved rehabilitation training program,
- participation in a dental residency program,
- seeking full-time employment, and
- economic hardship.

In-School Deferments

Reference

- *SFA Handbook: Institutional Eligibility and Participation*

A deferment for at-least-half-time study at an eligible school is commonly referred to as an in-school deferment. Any school that meets the definition of an eligible institution, whether or not it is currently participating in a Title IV student aid program, is an eligible school for the purpose of in-school deferments.

- If a school never participated in any of the Title IV programs, ED must decide whether the school meets the definition of an eligible institution before the school may certify an in-school deferment.
- The institutional eligibility section of ED's *Student Financial Aid (SFA) Handbook* provides extensive information about school requirements.

Graduate Fellowships Deferments

Borrowers may receive deferments for study in a graduate fellowship program. However, ED must approve the program.

Rehabilitation Training Deferments

Borrowers with disabilities may receive deferments for study in a rehabilitation training program. These training programs also must be approved by ED for borrowers to obtain these deferments.

Dental Residency Deferments

Borrowers participating in a residency training program in dentistry may receive deferments. Borrowers in medical internship or residency training programs are not eligible. However, they may be eligible for other types of deferments (for example, Economic Hardship Deferments).

Deferments for Seeking Full-Time Employment

Borrowers seeking and unable to find full-time employment can obtain a deferment. They must submit a deferment request every six months, however, to affirm their continuing employment search. Borrowers cannot receive this type of deferment for more than three years.

Economic Hardship Deferments

Borrowers experiencing economic hardship might be eligible for deferments, but they must submit a deferment request every 12 months to affirm continuing eligibility. Borrowers cannot receive this type of deferment for more than three years. Economic hardship exists when a borrower:

- is receiving payment under a federal or state public assistance program; or
- is working full time and is earning a total monthly gross income that does not exceed the greater of:
    - the minimum wage or
    - the poverty line for a family of two, as determined in Section 673(2) of the Community Service Block Grant Act; or
- meets other criteria, described in the following subsections.

Laws & Regulations

- Community Service Block Grant Act, Section 673(2)

Education Debt Burden

Borrowers may qualify for an Economic Hardship Deferment if they are working full time and have an annual federal education debt burden that is at least 20 percent of their total monthly gross income. (Defaulted loans are not included in the education debt burden unless a borrower has made satisfactory repayment arrangements.) A borrower's income minus the educational debt burden must be less than 220 percent of the greater of:

- the minimum wage rate, or
- an amount equal to 100 percent of the poverty line for a family of two.

Less than Full-Time Employment

Borrowers who are not working full time also might be eligible for an Economic Hardship Deferment. This would be if a borrower is not working full time and the borrower's total monthly gross income from all sources is less than twice the greater of:

- the minimum wage rate or
- the poverty line for a family of two.

In addition, after deducting total monthly payments on federal education loans, the borrower's income from all sources may not exceed the larger of:

- the minimum wage rate or
- the poverty line for a family of two.

Other Federal Loans with Economic Hardship Deferments

Direct Loan borrowers also qualify for Economic Hardship Deferments if they have been granted an Economic Hardship Deferment for loans they borrowed from the FFEL Program or the Federal Perkins Loan Program. The Economic Hardship Deferment for these federal student loans must apply to the same period that a borrower is requesting an Economic Hardship Deferment for his or her Direct Loans.

Other Deferments

Borrowers are entitled to the deferments listed on the promissory note. These deferments cannot be taken away. Congress also has the authority to add deferments that are not listed on the promissory note.

- For example, a borrower may qualify for some additional types of deferments if, at the time the borrower applied for his or her first Direct Loan, the borrower had an outstanding balance of principal or interest on a FFEL Program loan that was made, insured, or guaranteed before July 1, 1993. In that case, the borrower would be eligible for the same, additional deferments on Direct Loans as those for the previous FFEL Program loans.
- These deferments are listed in FFEL Program regulations.

Laws & Regulations

- 34 CFR 682.210(b)

Repayment

The loan repayment period for Direct Subsidized Loans and Direct Unsubsidized Loans begins the day after the grace period ends. This is when borrowers begin repaying their loans (unless they enter a deferment period or forbearance period).

The first payment is due within 60 days of the start of the repayment period. The length of time a borrower's loan is in repayment varies depending on the total amount owed and the repayment plan selected. In general, the shorter a repayment period, the less interest a borrower will have to pay over the life of the loan.

Laws & Regulations

- 34 CFR 685.207

For Your Information

ED is planning to offer two repayment discounts on Direct Subsidized Loans and Direct Unsubsidized Loans:

- a 0.25 percentage point interest rate reduction for borrowers paying electronically and
- a 0.6 percentage point interest rate reduction for borrowers who consolidate their loans while they are in school or during the grace period before they enter loan repayment.

Choice of Repayment Plans

Laws & Regulations

- 34 CFR 685.208(a)

Borrowers have the option of choosing one of five Direct Loan Program repayment plans. The following chart lists the five repayment plans and the number of years borrowers have to repay their Direct Loans under each plan.

Direct Loan Program Repayment Plans

Repayment Plan	Length of Repayment
Standard Repayment Plan	up to 10 years
Extended Repayment Plan	12-30 years
Graduated Repayment Plan	12-30 years
Income Contingent Repayment Plan	up to 25 years
Alternative Repayment Plan	up to 30 years

For Your Information

The Alternative Repayment Plan is not commonly used.

- It's for borrowers who can demonstrate that the other four repayment plans do not meet their exceptional circumstances.
- Borrowers cannot select the Alternative Repayment Plan without ED approval.

Borrowers must use one repayment plan for all of their Direct Subsidized Loans and Direct Unsubsidized Loans. However, borrowers have the option of changing repayment plans at any time. (Parent borrowers with Direct PLUS Loans and Direct PLUS Consolidation Loans may choose a separate repayment plan for these loans. They may not, however, choose the Income Contingent Repayment [ICR] Plan.)

Shortly before a borrower's loan enters repayment, the borrower receives information from ED's Direct Loan Servicing Center (DLSC) that describes each repayment plan (including the total amount the borrower will repay under each plan) and asks the borrower to select a repayment plan. Borrowers who do not make a selection are automatically placed on the Standard Repayment Plan.

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Standard Repayment Plan

The Standard Repayment Plan allows borrowers to repay their loans by making fixed monthly payments (that is, the same payment amount each month) for a maximum of ten years, or 120 months.

- The minimum monthly payment is $50. However, borrowers might pay more each month. The actual monthly payment depends on the size of the loan and the prevailing interest rate when the repayment period begins.
- The ten-year period, which does not include deferment periods or forbearance periods, can vary for a number of reasons.
    - For example, borrowers who owe small loan amounts might not need ten years to repay their Direct Loans in full. Also, the exact number of monthly payments for those borrowers might vary to accommodate annual changes to Direct Loan Program interest rates.

The following charts illustrate how much a borrower would pay each month under the Standard Repayment Plan, assuming an 8.25 percent interest rate. The first sample assumes that a borrower owes $15,000 in Direct Subsidized Loan principal.

Laws & Regulations

- 34 CFR 685.208(b)

Sample Payment for the Standard Repayment Plan: Direct Subsidized Loan

Principal	Monthly Payment	Total Amount Repaid
$15,000	$184	$22,080 ($15,000 principal + $7,080 interest)

The second sample assumes the borrower has taken out $15,000 in Direct Unsubsidized Loans at 8.25 percent to attend school. Because the borrower chose not to pay interest as it accrued over four years, at the time the loan entered repayment, $2,717 in capitalized interest was added to the original principal of $15,000, resulting in a total principal balance of $17,717.

Sample Payment for the Standard Repayment Plan: Direct Unsubsidized Loan

Principal	Capitalized Interest	Principal to be Repaid	Monthly Payment	Total Amount Repaid
$15,000	$2,717 (Interest accrued before the repayment period began)	$17,717 ($15,000 principal + $2,717 interest accrued before repayment period)	$217	$26,040 ($15,000 principal + $11,040 total interest)

In general, borrowers who use the Standard Repayment Plan pay the least amount of interest since the repayment period is shorter than for other plans. It also means that the monthly payments are higher.

Extended Repayment Plan

Laws & Regulations

- 34 CFR 685.208(c)

Like the Standard Repayment Plan, the Extended Repayment Plan has a $50 minimum monthly payment. However, unlike the Standard Repayment Plan, this plan gives Direct Loan borrowers 12 to 30 years to repay their loans.

- ✦ The length of repayment depends on the total Direct Loan amount that a borrower owes.
- ✦ For lower loan amounts, the period can be less than 12 years because a borrower must make payments of at least $50 each month.

As a general rule, repayment takes longer with the Extended Repayment Plan than with the Standard Repayment Plan, which has a ten-year repayment-period limit. As a result, borrowers using the Extended Repayment Plan pay less per month, but more in total. Although borrowers end up paying more in the long run, the Extended Repayment Plan's lower monthly payments can help borrowers whose incomes are not sufficient to manage the monthly payments required for the Standard Repayment Plan.

The following chart shows how much borrowers might pay each month and in total on Direct Subsidized Loans if they used the Extended Repayment Plan. The chart assumes that the interest rate is 8.25 percent and that the borrower is repaying over 15 years (180 monthly payments).

Sample Payment for the Extended Repayment Plan
Direct Subsidized Loan

Principal	Monthly Payment	Total Amount Repaid
$15,000	$146	$26,280 ($15,000 principal + $11,280 interest)

Graduated Repayment Plan

Like the Extended Repayment Plan, the Graduated Repayment Plan gives borrowers 12 to 30 years to repay their loans, depending on the size of their Direct Loan debt.

Laws & Regulations

- 34 CFR 685.208(d)

Extended/Graduated Repayment Plans

Amount of Debt	Length of Repayment
• Less than $10,000	12 years
• $10,000 to $19,999	15 years
• $20,000 to $39,999	20 years
• $40,000 to $59,999	25 years
• $60,000 or more	30 years

The Graduated Repayment Plan has the advantage of offering lower monthly payments during the early portion of a borrower's career when a borrower's income is likely to be lower. However, borrowers using this plan will probably pay more over the repayment period than borrowers using the Standard Repayment Plan or the Extended Repayment Plan.

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The monthly payments start low and then increase approximately every two years throughout the repayment period.

- The minimum monthly payment is the greater of:
    - the interest that accumulates between monthly payments or
    - 50 percent of the monthly payment a borrower would have paid using the Standard Repayment Plan.
- The maximum monthly payment is never more than 150 percent of what the borrower would have paid using the Standard Repayment Plan.

The sample in the Graduated Repayment Plan chart below shows how monthly payments can change from the beginning of a repayment period to the end. The sample assumes the following:

- The principal is $15,000 in Direct Subsidized Loan.
- The interest rate is 8.25 percent.
- The repayment period is 15 years.

Sample Payment for the Graduated Repayment Plan: Direct Subsidized Loan

Principal	Beginning Monthly Payment	Ending Monthly Payment	Total Amount Repaid
$15,000	$105	$238	$28,628 ($15,000 principal + $13,628 total interest)

Income Contingent Repayment Plan

The Income Contingent Repayment Plan helps borrowers to meet their repayment obligations without causing undue financial hardship. This plan is tailored to a borrower's personal financial situation by taking into account his or her annual income, family size, and amount of outstanding Direct Subsidized Loans and Direct Unsubsidized Loans. Parent borrowers with Direct PLUS Loans and Direct PLUS Consolidation Loans may not choose this repayment plan.

Laws & Regulations

- 34 CFR 685.209
- 34 CFR 685.208(f)

Required documentation. To participate in the Income Contingent Repayment Plan, a borrower (and, if married, the borrower's spouse) must sign a form that permits the Internal Revenue Service (IRS) to inform ED of certain information, such as the borrower's (and spouse's) adjusted gross income (AGI). ED may use this information to calculate the borrower's monthly payment.

Under certain circumstances, ED may also require alternative documentation from borrowers (and spouses) to calculate borrowers' monthly payment amounts. Examples of alternative documentation include pay stubs, canceled checks, or, if these are unavailable, signed statements explaining the borrowers' income sources.

ED requires borrowers to provide alternative documentation:

- when the AGI is not available;
- in the first and possibly the second year of repayment, when a borrower's reported AGI may not reasonably reflect current income; and
- for any other reasons that ED believes that the borrower's reported AGI may not reasonably reflect current income.

Borrowers also submit alternative documentation with their requests to adjust monthly payments when changes in their circumstances occur, such as loss of employment.

Length of repayment. The maximum repayment period is 25 years. If a borrower made payments under the Standard Repayment Plan or the 12-year Extended Repayment Plan and then switches to the Income Contingent Repayment Plan, the repayment periods under the other plans count toward the 25-year repayment period.

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- Payments a borrower made under the Graduated Repayment Plan or the Alternative Repayment Plan do not count toward the maximum 25 years.
- If a borrower has not fully repaid the loans after 25 years under this plan, the unpaid portion is discharged (that is, the borrower doesn't have to repay that portion). However, the borrower must pay taxes on the amount discharged.
- Payments a borrower made under an Extended Repayment Plan with a repayment period longer than 12 years do not count toward the maximum 25 years.

Take a Look

See Appendix C, which contains the Direct Loan regulations, including information about income percentage factors and determining "poverty level" by family size.

Monthly payments. A borrower pays the lesser of:

- the amount he or she would have paid if the borrower repaid the loan in 12 years multiplied by an income percentage factor that varies with annual income and marital status (single, married, or head of household); or
- 20 percent of the borrower's discretionary income, which is the borrower's AGI minus the poverty level for his or her family size.

Borrowers are obligated to pay the monthly payment amount calculated by ED. However, there are two exceptions.

- The borrower's monthly payment is zero if income is less than or equal to the poverty level for the family size.
- The borrower's monthly payment is $5 if the calculated monthly payment would have been greater than zero but less than $5.

Take a Look

See page 2-12 for details about capitalization.

Capitalizing interest. If monthly payments do not cover accruing interest, the unpaid interest is capitalized (added to the principal) once each year. If capitalizing the interest increases the total amount a borrower owes to more than 110 percent of the loan amount when the repayment period began, interest will continue to accrue, but it won't be capitalized.

Reference

- *Repayment Book* (about Direct Loans)

Web Site

- http://ed.gov/DirectLoan

ED publishes a Direct Loan *Repayment Book*, which provides step-by-step directions for calculating monthly repayments for the Income Contingent Repayment Plan. This booklet is available on ED's Direct Loan Web site.

Married borrowers. If borrower and his or her spouse have each borrowed Direct Loans, they can repay their loans jointly. The payment is based on the married borrowers' joint debt and joint income. Married borrowers are not required to repay loans jointly. However, if only one of the marriage partners chooses to repay under the Income Contingent Repayment Plan, ED uses the AGI (or alternative documentation of income) for both borrowers to determine the monthly payments.

Switching Repayment Plans

Direct Loan borrowers sometimes decide that their repayment plan no longer meets their needs. A borrower can switch plans at any time as long as the maximum repayment period for the new plan is longer than the amount of time the borrower's loan has already been in repayment under the previous plan(s). However, the borrower may switch to the Income Contingent Repayment Plan at any time, but the repayment period may be recalculated. ED must approve all repayment plan changes.

Borrowers who have defaulted on their Direct Loans and are repaying them on the Income Contingent Repayment Plan are usually not allowed to switch plans. However, a borrower in this situation may switch to another repayment plan, if ED approves the changes and if the borrower:

- was required to and made payments under the Income Contingent Repayment Plan in each of the prior three months or
- was not required to make payments but, nonetheless, made three reasonable and affordable payments in each of the prior three months.

Laws & Regulations

- 34 CFR 685.210(b)

Take a Look

See page 2-25 for details on length of repayment under the Income Contingent Repayment Plan.

Forbearance

Forbearance refers to periods in which borrowers are allowed to:

- stop making payments temporarily,
- extend the time for making payments, or
- temporarily make smaller payments than previously scheduled.

In the Direct Loan Program, borrowers have the option of choosing the form of forbearance. ED grants forbearance for a period of up to one year. Borrowers can request a renewal of their forbearance status for the duration of the period in which the borrower meets the condition required for the forbearance.

Laws & Regulations

- 34 CFR 685.205(a)

While borrowers are relieved of paying principal during forbearance, interest continues to accrue. This is true for both Direct Subsidized Loans and Direct Unsubsidized Loans. If borrowers do not pay accruing interest during the forbearance period, the interest is capitalized.

A borrower or endorser may receive forbearance, on request, if ED decides that the borrower or endorser intends to repay the loan and provides documentation that:

- the borrower or endorser is currently unable to make scheduled payments due to poor health or other acceptable reasons;
- the borrower is in a medical or dental internship or residency that must be successfully completed before the borrower may begin professional practice or service;
- the borrower is in a medical or dental internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or health-care facility that offers postgraduate training;
- the borrower is serving in a national service position for which the borrower will receive a national service educational award (grant) under the National Community Service Trust Act of 1993; or
- the borrower's monthly payments on federal education loans are equal to or greater than 20 percent of the borrower's or endorser's total monthly gross income.
    - This forbearance option is limited to three years.

Administrative Forbearance

Laws & Regulations

- 34 CFR 685.205(b)

In certain instances, ED grants forbearance without requiring documentation from borrowers. These circumstances include, but are not limited to:

- a properly granted period of deferment for which ED later learns a borrower did not qualify;
- a period for which payments are overdue at the beginning of a deferment;
- the period from the time a borrower entered repayment until the first payment due date is established;

- a period before a borrower's bankruptcy petition; or
- a period after ED receives reliable information indicating that a borrower (or the student in the case of a Direct PLUS Loan) has died or has become totally and permanently disabled until ED receives documentation verifying those conditions.

Administrative forbearance may also be granted for periods necessary for ED to determine a borrower's eligibility for discharge because:

- the borrower or endorser filed for bankruptcy;
- the borrower did not complete the program of study for which the loan was made because the school at which the student was enrolled closed; or
- the school at which the student was enrolled falsely certified the borrower's eligibility or made an unauthorized payment to the borrower.

Other Forbearance Circumstances

There are other circumstances in which a borrower may qualify for forbearance. For example, forbearance may be granted when the effect of a variable interest rate on a fixed amount or graduated repayment schedule extends repayment past the maximum repayment term. Borrowers might also receive forbearance when there is a national military mobilization or other local or national emergency.

Discharge

Under certain conditions, all or a portion of a borrower's loan debt may be canceled or "discharged." The conditions are:

- death or total and permanent disability,
- bankruptcy,
- closed schools,
- falsely certified loans, and
- failing to refund loan proceeds.

Laws & Regulations

- 34 CFR 685.212

Death and Disability

Laws & Regulations

- 34 CFR 685.212(a) & (b)

If a Direct Loan borrower dies or becomes totally and permanently disabled, ED discharges the borrower's (and endorser's) obligation to make any further payments on the loan.

More About Total and Permanent Disability

A borrower is not considered totally and permanently disabled on the basis of a condition that existed at the time the borrower applied for the loan. An exception to this rule is when a borrower's condition substantially deteriorates after the loan is made. In these cases, the borrower must be rendered totally and permanently disabled.

Bankruptcy

Laws & Regulations

- 34 CFR 685.212(c)
- *11 U.S.C 523(a)(8)*

A federal student loan or federal grant overpayment cannot be discharged in bankruptcy unless the bankruptcy court determines that repaying the debt would cause an undue hardship on the debtor and his or her dependents. If a borrower's obligation to repay a loan is discharged in bankruptcy, ED does not require the borrower to make any further payments on the loan. However, in this case, the endorser on a Direct PLUS Loan would assume the borrower's responsibility to repay the remaining amount.

Closed Schools

Laws & Regulations

- 34 CFR 685.212(d)
- 34 CFR 685.213

A borrower's obligation is to repay an FFEL Program loan received on or after January 1, 1986 or any Direct Loan is canceled if the student (either the student borrower or the student on whose behalf a parent obtained a Direct PLUS Loan or a FFEL Program PLUS Loan) was unable to complete his or her program of study because the school closed or if the student withdrew from the school not more than 90 days before the school closed. This 90-day period may be extended on a case-by-case basis if ED deems an extension is appropriate.

False Certification

If a borrower meets the requirements for a discharge because the school at which the student was enrolled falsely certified the borrower's eligibility or made an unauthorized payment to the borrower as defined in 34 CFR 685.214, ED discharges the obligation of the borrower (and any endorser) to make any further payments on the loan.

Laws & Regulations

- 34 CFR 685.212(e)
- 34 CFR 685.214

Failing to Refund Loan Proceeds

If a school fails to refund loan proceeds that it owes to ED or to the student's lender, ED will:

- discharge the borrower's liability on the loan (up to the amount of the unpaid refund) by repaying the loan and
- pursue any claim available to the borrower against the institution.

Other Provisions

If ED receives any payments on a loan after the date that the borrower became eligible for an ED-accepted discharge, ED returns those payments to the sender, or, for a discharge on the basis of death, the borrower's estate.

If a borrower's defaulted loans are discharged under these provisions, the borrower (if otherwise eligible) regains eligibility for Title IV federal student aid funds. ED reports the discharged loans to all credit-reporting agencies' records.

Laws & Regulations

- 34 CFR 685.212(f)

Loans For Parents: Direct PLUS Loans

Direct PLUS Loans are made to parents borrowing on behalf of their dependent undergraduate children who are enrolled at least half time in an eligible program of study.

Take a Look

See Chapter 5 for details about eligibility requirements for parents.

Many of the Direct PLUS Loan components are the same as the components for all Direct Loans. They are:

- late charges,
- collection charges,
- prepayment, and
- discharged loans.

Take a Look

- See page 2-13 for details about late charges, collection charges, and prepayment.
- See page 2-29 for details about discharged loans.

Descriptions of these features are in the "Loans for Students" section of this chapter and won't be repeated in this section. This section will focus on the following topics specific to Direct PLUS Loan:

- loan fees,
- loan limits,
- interest rates,
- grace period,
- repayment,
- deferment, and
- forbearance.

Loan Fees

Take a Look

- See page 2-12 for details about loan fees for Direct Loans for students.
- See Chapter 8 for details about adjusting Direct Loan amounts.

ED charges a loan fee of 4 percent of the principal amount of the loan on all Direct PLUS Loans. This fee is deducted from the loan proceeds through prorated amounts taken from each disbursement of the loan.

If a school cancels a Direct PLUS Loan (adjusts it downward to $0) or a portion of the loan amount is adjusted downward to comply with the HEA or with applicable regulations, ED eliminates or reduces the loan fee that pertains to the downward-adjusted portion of the disbursement.

Loan Limits

Laws & Regulations

- HEA, Title IV, Part D

Direct PLUS Loans do not have fixed annual or aggregate loan limits. Instead, a parent may borrow any amount up to his or her child's (dependent student's) cost of attendance (COA) minus other financial aid, which is referred to as estimated financial assistance (EFA).

Cost of Attendance (COA)
– Estimated Financial Assistance (EFA)
= Maximum Direct PLUS Loan Amount

In general, EFA includes most grants, loans, and need-based assistance received by a student or parent on behalf of a student for a period of enrollment. However, EFA does *not* include:

- Direct PLUS Loan amounts,
- Direct Unsubsidized Loan amounts,
- nonfederal loan amounts, or
- Federal Perkins Loan and Federal Work-Study funds that the student declined.

The formula for calculating how large a Direct PLUS Loan a parent can borrow works like this:

- If a student's COA for an academic year is $8,000 and he or she is not going to receive financial aid from any source for that year, the parent's maximum Direct PLUS Loan amount for the year is $8,000.
- If the student receives financial aid that qualifies to be a part of the EFA, the Direct PLUS Loan amount is reduced by the amount of the financial aid.
- The chart below illustrates these examples.

Example

	Student A	**Student B**	**Student C**
Cost of Attendance (COA)	$8,000	$8,000	$8,000
Estimated Financial Assistance (EFA)	$ 0	$2,500	$8,000
Maximum Direct PLUS Loan Amount	$8,000	$5,500	$ 0

The maximum aggregate Direct PLUS Loan parents may borrow for a student may not be greater than the student's COA minus EFA for the student's entire period of enrollment.

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Interest Rates

The interest rate on Direct PLUS Loans is variable on an annual basis, but it is capped at 9 percent. This means that the interest rate on Direct PLUS Loans can change from year to year but will not go above 9 percent.

The rate is determined on June 1 each year and applies to the subsequent 12-month period from July 1 to June 30. For July 1, 1999 to June 30, 2000, the interest rates for Direct PLUS Loans first disbursed on or after July 1, 1998 is 7.72 percent.

The formula that ED uses to calculate the interest rate is in the HEA.

- ✦ The formula starts with the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1.
- ✦ To this "average" Treasury-bill rate, ED then adds an additional percentage (3.1 percent).
- ✦ The sum results in the interest rate for Direct PLUS Loans for the year.

From time to time, Congress has enacted changes to the HEA that affect the formula. As a result, not all Direct PLUS Loans have the same interest rate (although the interest rate cap has always been 9 percent since the Direct Loan Program began in 1994).

- ✦ For Direct PLUS Loans first disbursed on or after July 1, 1998, the interest rate equals the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1 percent.
- ✦ For Direct PLUS Loans first disbursed before July 1, 1998, the interest rate equals the bond equivalent rate of 52-week Treasury bills auctioned at the final auction before June 1 plus 3.1 percent.

Interest is charged on Direct PLUS Loans over the life of the loan, that is, from the date the disbursement is made to the date the loan is repaid in full.

- ✦ There is no interest subsidy for Direct PLUS Loan borrowers. This means that ED never pays for any interest that accrues on Direct PLUS Loans.
- ✦ As a result, the borrower is responsible for all interest that accrues over the life of the loan. This includes a student's in-school period and a parent-borrower's deferment periods.

Laws & Regulations

- HEA, Title IV, Section 455(b)

For Your Information

July 1, 1999- June 30, 2000 interest rates on Direct PLUS Loans for:

- Loans first disbursed on or after July 1, 1998—7.72%
- Loans first disbursed before July 1, 1998—7.98%

- Interest accrues (accumulates) during a Direct PLUS Loan's deferment and forbearance periods, and accrued interest is capitalized (added to the loan principal) when the period ends.

Grace Periods

Unlike Direct Loans for students (Direct Subsidized Loans and Direct Unsubsidized Loans), Direct PLUS Loans for parents do not provide borrowers with a grace period.

Take a Look

See page 2-15 for details about grace periods for Direct Loans for students.

Repayment

The timing for parents repaying Direct PLUS Loans and the repayment plans available are somewhat different from Direct Subsidized Loans and Direct Unsubsidized Loans.

Repayment Period

The repayment period for a Direct PLUS Loan begins on the day the loan is fully disbursed. This is the day the last loan disbursement is made. Parent borrowers then begin repaying principal and interest on their Direct PLUS Loans. The first payment is due within 60 days after the start of the repayment period. In most cases, parents begin repaying their Direct PLUS Loans while the students for whom they borrowed are still in school.

If, after a Direct PLUS Loan is disbursed, a student enrolls less than half time or does not enroll at all during the period for which the Direct PLUS Loan was intended, the entire amount of the loan is due immediately.

- The parent is responsible for notifying ED of the date that the student ceased to be enrolled at least half time.
- The school also must promptly inform ED when the student is no longer enrolled at least half time. (Chapter 11, which focuses on Student Status Confirmation Report [SSCR] requirements, addresses schools' responsibilities in this area.)

Take a Look

See Chapter 11 for details about reporting enrollment status changes to ED.

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Repayment Plans

Laws & Regulations

- 34 CFR 685.208(a)(2)

Take a Look

See page 2-19 for details about these repayment plans.

Direct PLUS Loan parent borrowers may choose from four repayment plans that are also available to Direct Subsidized Loan and Direct Unsubsidized Loan borrowers. These plans, which are described earlier in this chapter, consist of:

- the Standard Repayment Plan,
- the Extended Repayment Plan,
- the Graduated Repayment Plan, and
- the Alternative Repayment Plan.

Parent borrowers may not use the Income Contingent Repayment Plan to repay their Direct PLUS loans.

Deferment

Direct PLUS Loan deferments refer to periods during which payments of principal are postponed. Nonetheless, interest accrues (accumulates) and is charged to parent borrowers. During deferment periods, Direct PLUS Loan borrowers may choose either to pay the interest or to have it capitalized (added to their loan principal).

Take a Look

See pages 2-15 for details about the types of Direct Loan deferments.

Direct PLUS Loan borrowers are eligible for the same deferments as borrowers of Direct Subsidized Loans and Direct Unsubsidized Loans. These are described earlier in this chapter and consist of deferments for:

- in-school student status,
- study in an eligible fellowship program,
- study in an approved rehabilitation training program,
- participation in a dental residency program,
- seeking full-time employment, and
- economic hardship.

In most cases, the condition that defines the authorized deferments must apply to the parent borrower, not the student. For example, a Direct PLUS Loan borrower can receive a deferment if he or she is enrolled at least half time in a program of study at an eligible school. A Direct PLUS Loan borrower cannot qualify for an in-school deferment on the basis of his or her dependent student's half-time enrollment.

For example, a Direct PLUS Loan borrower who, when applying for his or her first Direct Loan, had outstanding balance or principal or interest on a FFEL Program loan that was made, insured, or guaranteed before July 1, 1993 may also be eligible for a deferment while the dependent student is:

- enrolled at least half time and has received a Direct Loan or FFEL Program loan for that period of enrollment;
- engaged in a full-time graduate fellowship program; or
- engaged in a full-time rehabilitation program for individuals with disabilities.

To receive a deferment, Direct PLUS Loan borrowers must request—and be granted—a deferment by ED. Borrowers make the request through ED's Direct Loan Servicing Center (DLSC). Borrowers should continue making loan payments until they receive their approval for deferment.

Forbearance

Forbearance refers to periods in which borrowers are allowed to stop making payments temporarily, extend the time for making payments, or temporarily make smaller payments than previously scheduled. The circumstances for which Direct PLUS Loan parent borrowers can obtain forbearance are the same as for Direct Subsidized Loans and Direct Unsubsidized Loans and are covered earlier in this chapter.

Take a Look

See page 2-27 for details about forbearance.

Direct Consolidation Loans

Direct Consolidation Loans allow borrowers to combine one or more of their federal education loans. This new loan repays each previous loan, leaving the borrower with one loan and one monthly payment. Borrowers who obtain Direct Consolidation Loans may extend their repayment period. Extending the repayment period reduces monthly payments, but it also increases the amount of interest borrowers pay over the life of the loan. This increases the total amount to be repaid.

Laws & Regulations

- 34 CFR 685.215

Direct Consolidation Loan Categories

Direct Subsidized Consolidation Loans

The following loans can be combined into one Direct Subsidized Consolidation Loan:

- Direct Subsidized Loans
- Subsidized Federal Stafford Loans
- Guaranteed Student Loans (GSLs)
- Federal Insured Student Loans (FISLs)
- Federal Perkins Loans
- National Direct Student Loans
- National Defense Student Loans
- Subsidized Federal Consolidation Loans
- Other Direct Subsidized Consolidation Loans

Direct Unsubsidized Consolidation Loans

The following loans can be combined into one Direct Unsubsidized Consolidation Loan:

- Direct Unsubsidized Loans
- Federal Unsubsidized Stafford Loans
- Federal Supplemental Loans for Students (SLS)
- Auxiliary Loans to Assist Students (ALAS)
- Health Professions Student Loans (HPSLs)
- Health Education Assistance Loans (HEALs)
- Loans for Disadvantaged Students (LDS)
- Nursing Student Loans (NSLs)
- Unsubsidized Federal Consolidation Loans
- Other Direct Unsubsidized Consolidation Loans

Direct PLUS Consolidation Loans

- Direct PLUS Loans
- Federal PLUS Loans
- other Direct PLUS Consolidation Loans

Nonfederal education loans are not eligible for consolidation in the Direct Loan Program. Sources of nonfederal loans include states, schools, and private organizations.

Borrowers generally seek Direct Consolidation Loans after leaving school. This is referred to as "regular" consolidation.

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"In-school consolidation" is available, but a borrower who is in school may consolidate only Direct Loans and FFEL Program loans. In addition to regular consolidation requirements, in-school consolidation is limited to borrowers who:

- if attending a Direct Loan school, consolidate at least one fully disbursed Direct Loan or FFEL Program loan that is in an in-school period.
- if attending a non-Direct Loan school, have at least one Direct Loan and consolidate at least one fully disbursed Direct Loan or FFEL Program loan that is in an in-school period.

Generally, a student loan is considered to be in an-school period from the time the loan is fully disbursed until the borrower ceases to be enrolled on at least a half-time basis.

There are three categories of Direct Consolidation Loans:

- Direct Subsidized Consolidation Loans, which are for subsidized federal student loans authorized in Title IV of the HEA;
- Direct Unsubsidized Consolidation Loans, which are for unsubsidized federal student loans authorized in Title IV of the HEA and federal student loans authorized in Titles VII and VIII of the Public Health Service Act; and
- Direct PLUS Consolidation Loans, which are for federal parent loans authorized in Title IV of the HEA (Direct PLUS Loans and Federal PLUS Loans).

The specific types of federal loans that borrowers can consolidate under each type of Direct Consolidation Loan are shown in the chart on the previous page.

Borrowers must apply to ED's Loan Origination Center (LOC) for Direct Consolidation Loans.

- A single application is used, even if the borrower is consolidating more than one type of loan, such as subsidized student loans and unsubsidized student loans or subsidized student loans and parent loans.
- Borrowers may add eligible loans to a Direct Consolidation Loan by submitting a request to ED within 180 days after the consolidation loan is originated.

For Your Information

ED is planning to offer a 0.6 percentage point reduction for student borrowers who consolidate their Direct Loans while they are in school or during the grace period before they enter loan repayment.

Laws & Regulations

- 34 CFR 685.215(b) & (c)

Laws & Regulations

- 34 CFR 685.215(e)

Take a Look

See page 2-38 for a chart that shows Direct Consolidation Loan categories.

Even if a borrower has loans from more than one of the categories listed in the chart on the page 2-38, he or she still has only one Direct Consolidation Loan and makes just one payment.

Borrowers must consolidate at least one Direct Loan or FFEL Program loan. However, borrowers are not required to consolidate all their outstanding federal education loans.

- ✦ For example, a borrower may choose not to consolidate a loan with a very low interest rate that is likely to remain lower than the interest rate on Direct Consolidation Loans.

As noted earlier, nonfederal education loans cannot be included in a Direct Consolidation Loan.

Loan Limits

There are no minimum or maximum loan limits for a Direct Consolidation Loan. The initial principal balance of a Direct Consolidation Loan is equal to the sum of the amounts paid by ED to the holders of loans being consolidated. ED pays each holder the amount necessary to pay off the loan to be consolidated.

Laws & Regulations

- 34 CFR 685.203(i)

Consolidating federal education loans does not increase the borrower's loan limits for Direct Subsidized Loans or Direct Unsubsidized Loans. That is, the aggregate limit (or sum total) for both undergraduate and graduate/professional students must include any portion of a borrower's Direct Consolidation Loan that was used to repay a Direct Subsidized Loan or Direct Unsubsidized Loan. Thus, consolidating a student's loans does not increase the student's loan limits.

Interest Rates

Some Direct Consolidation Loans have fixed interest rates. That is, ED establishes the interest at the time of consolidation and the interest rate remains the same until the Direct Consolidation Loan is repaid. Other Direct Consolidation Loans have variable interest rates. ED adjusts these interest rates on an annual basis.

Calculating Interest Rates

The different types of interest rate calculations are a result of changes to interest rate formulas in the HEA. The most recent change occurred with the 1998 reauthorization of the HEA, when Direct Consolidation Loans became fixed interest rate loans.

Laws & Regulations

- HEA, Title IV, Section 455(b)

Direct Consolidation Loans with Fixed Interest Rates

Interest rates are fixed on Direct Consolidation Loans for which ED receives applications on or after February 1, 1999. The interest rate is equal to the lesser of:

- the weighted average of the interest rates of the loans that the borrower is consolidating, rounded up to the nearest one-eighth of one percent; or
- 8.25 percent.

This formula applies to all three categories of Direct Consolidation Loans.

At the time of loan certification, ED calculates the interest rate for a borrower requesting a Direct Consolidation Loan. That interest rate remains in effect until the loan is repaid in full.

Direct Consolidation Loans with Variable Interest Rates

Direct Consolidation Loans for which ED received applications before February 1, 1999 have a variable interest rate. The interest rate is determined on June 1 each year and applies to the subsequent period from July 1 to June 30.

The formula that ED uses to calculate Direct Consolidation Loan interest rates is in the HEA and regulations.

- The formula starts with the bond equivalent rate of Treasury bills auctioned at the final auction before June 1.
- To this "average" Treasury-bill rate, ED then adds an additional percent.
- The sum results in the interest rate for Direct Consolidation Loans for the year.

Laws & Regulations

- HEA, Title IV, Section 455(b)
- 34 CFR 685.215(g)

☎ **Where to Call**

- The LOC at 1-800-557-7392.
- LOC's TDD at 1-800-557-7395.

As the following chart shows, ED uses variations on this formula to calculate interest rates for Direct Consolidation Loans that are not eligible for fixed interest rates.

✦ The LOC is available to answer questions about Direct Consolidation Loan interest rates.

Federal Direct Loan Consolidation Loan Interest Rates

If a Direct Consolidation Loan...	the interest rate will be...	and during...	Student Loan Portions[1]	Parent Loan Portion[2]
			the interest rate will be...	
was first disbursed before 7/1/98	adjusted each July 1	Repayment	91-day Treasury bill rate + 3.1% (7.72% through 6/30/2000)	52-week Treasury bill rate + 3.1% (7.98% through 6/30/2000)
		In-school, grace, deferment	91-day Treasury bill rate + 2.5% (7.12% through 6/30/2000)	52-week Treasury bill rate + 3.1% (7.98% through 6/30/2000)
application was received before 10/1/98 and the loan is first disbursed on or after 7/1/98	adjusted each July 1	Repayment	91-day Treasury bill rate + 2.3% (6.92% through 6/30/2000)	91-day Treasury bill rate + 3.1% (7.72% through 6/30/2000)
		In-school, grace, deferment	91-day Treasury bill rate + 1.7% (6.32% through 6/30/2000)	91-day Treasury bill rate + 3.1% (7.72% through 6/30/2000)
application was received between 10/1/98 and 1/31/99	adjusted each July 1	All periods	91-day Treasury bill rate + 2.3% (6.92% through 6/30/2000)	91-day Treasury bill rate + 2.3% (6.92% through 6/30/2000)[1]
application is received on or after 2/1/99	fixed for life of the loan	All periods	Weighted average of interest rates on loans being consolidated, rounded up to nearest one-eighth of one percent	Weighted average of interest rates on loans being consolidated, rounded to up nearest one-eighth of one percent[1]

Footnotes

1. Will not exceed 8.25%.
2. Will not exceed 9% except where noted.

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Charging Interest

For Direct Subsidized Consolidation Loans, ED *does not* charge interest while borrowers are in an in-school period, grace period, or deferment period. ED charges interest during all other periods, that is, during repayment periods and forbearance periods.

For Direct Unsubsidized Consolidation Loans and Direct PLUS Consolidation Loans, ED *does* charge interest over the entire life of the loan. This includes in-school periods, grace periods, deferment periods, forbearance periods, and repayment periods.

Loan Fees

Borrowers are not charged a loan fee for consolidating their loans. However, if borrowers do not pay on time, they may be responsible for other costs.

Late Charges

ED can charge late fees on installment payments that borrowers do not pay within 30 days of the due date. Currently, ED is not charging late fees.

Laws & Regulations

- 34 CFR 685.202(d)

Collection Charges

On Direct Consolidation Loans that are in default, ED can require borrowers or endorsers to pay additional costs. These include reasonable collection fees and costs, court costs, and attorney's fees associated with collecting the debt. ED may require borrowers or endorsers who are delinquent on their payments—but not in default—to pay collection charges.

Laws & Regulations

- 34 CFR 685.202(e)

Take a Look

See page 2-13 for details on collection charges for delinquent loans that are not in default.

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Prepayment

Laws & Regulations

- 34 CFR 685.211(a)

Take a Look

See page 2-13 for details about prepayment.

Borrowers are allowed to prepay their Direct Consolidation Loans without paying an additional charge. How ED handles prepayments from borrowers is described earlier in this chapter.

Grace Period

Laws & Regulations

- 34 CFR 685.215(i)(4)

Most Direct Consolidation Loans do not have a grace period. There is an exception for borrowers who obtain an "in-school" Direct Consolidation Loan.

- In these cases, a Direct Consolidation Loan has a six-month grace period that begins the day after the student ceases to be enrolled at least half time at an eligible school.
- The initial grace period does not end until the consolidation borrower ceases to be enrolled at least half time for a continuous period of six months. A borrower who returns to school on at least a half-time basis before completing the initial grace period is entitled to a full initial grace period, calculated as six consecutive months, from the date that he or she drops below half-time enrollment again.

Deferment

Laws & Regulations

- 34 CFR 685.204

Take a Look

- See page 2-15 for details about deferments on Direct Subsidized Loans and Direct Unsubsidized Loans.
- See page 2-36 for details about deferments on Direct PLUS Loans.

Direct Consolidation Loan borrowers are eligible for the same deferment opportunities that are available to borrowers of other Direct Loans. These deferments are presented earlier in this chapter.

- Direct Subsidized Consolidation Loans and Direct Unsubsidized Consolidation Loans have the same deferments as Direct Subsidized Loans and Direct Unsubsidized Loans.
- Direct PLUS Consolidation Loans have the same deferments as Direct PLUS Loans.
- Direct Consolidation Loan borrowers may also be eligible for the same deferments that they carried on underlying FFEL Program loans that were included in the consolidation. A borrower who asks for information about Direct Consolidation Loans is sent a

consolidation package with a copy of ED's *Federal Direct Consolidation Loans.* A chart in the publication lists these deferments.

There are two important facts about deferment on Direct Consolidation Loans.

- If a borrower consolidates a loan that is in deferment, the borrower has to reapply for the deferment once the loan has been consolidated.
- For married borrowers with joint Direct Consolidation Loans, ED only grants deferments if both borrowers are eligible for deferment. If not, monthly payment installments continue to be due and payable.

Reference

- *Federal Direct Consolidation Loans*

Repayment

A "regular" Direct Consolidation Loan's repayment period begins on the day the loan is disbursed. The first payment is due within 60 days of disbursement.

If a borrower receives an "in-school" Direct Consolidation Loan, the repayment period begins the day after the grace period ends. To avoid cutting short a grace period, borrowers with loans in a grace period should wait until the last two months of the grace period before submitting a Direct Consolidation Loan application.

Repayment Plans

Direct Consolidation Loan borrowers may choose one of five available repayment plans, depending on the type of loan they are repaying. The available repayment plans are:

- the Standard Repayment Plan,
- the Extended Repayment Plan,
- the Graduated Repayment Plan,
- the Income Contingent Repayment Plan, and
- the Alternative Repayment Plan.

Laws & Regulations

- 34 CFR 685.215(h)

Take a Look

See page 2-19 for details about repayment plans.

All five repayment plans are available to borrowers of Direct Subsidized Consolidation Loans and Direct Unsubsidized Consolidation Loans.

- ✦ Direct PLUS Consolidation Loan borrowers may not choose the Income Contingent Repayment Plan.

In general, borrowers must repay all their loans under the same repayment plan. However, borrowers repaying both parent loans and their own student loans may repay them under different loan plans. For example, a borrower may choose to repay her student loans under the Income Contingent Repayment Plan and her Direct PLUS Loans under the Extended Repayment Plan.

- ✦ Borrowers in this situation still receive one monthly statement and make one monthly payment.
- ✦ The DLSC monitors and updates all balance activity on borrowers' accounts.

Switching Repayment Plans

Take a Look

See page 2-25 for details about the repayment period being recalculated after switching to the Income Contingent Repayment Plan.

Direct Loan borrowers sometimes decide that their repayment plan no longer meets their needs. A borrower can switch plans at any time as long as the maximum repayment period for the new plan is longer than the amount of time the borrower's loan has already been in repayment under the previous plan(s). A borrower may switch to the Income Contingent Repayment Plan at any time, but the repayment period may be recalculated. ED must approve all repayment plan changes.

There is an exception for borrowers with defaulted loans.

Consolidating Defaulted Loans

Laws & Regulations

- 34 CFR 685.215(d)(2)(ii)(E)

Borrowers may consolidate defaulted federal education loans, if, in addition to meeting other requirements, they:

- ✦ have made satisfactory repayment arrangements to repay their defaulted loan or
- ✦ agree to repay the loan under the Income Contingent Repayment Plan and sign a consent form allowing the Internal Revenue Service (IRS) to release certain income information to ED.

A borrower who agreed to repay under the Income Contingent Repayment Plan to consolidate defaulted loans may not change to another repayment plan unless he or she:

- was required to and made payments under the Income Contingent Repayment Plan in each of the prior three months; or
- was not required to make payments, but made three reasonable and affordable payments in each of the prior three months.

Married Borrowers

Married borrowers may consolidate their federal education loans into one Direct Consolidation Loan if they meet the regulatory requirements. Some of the requirements apply to at least one spouse. Other provisions apply to both spouses.

Laws & Regulations

- 34 CFR 685.215(l)

Requirements that Apply to One Spouse

At least one spouse must have either an outstanding balance on a Direct Loan or an outstanding balance on an FFEL Program loan and assert that:

- he or she is unable to obtain a FFEL Program consolidation loan or
- he or she is unable to obtain an FFEL Program consolidation loan with acceptable income-sensitive repayment terms and is eligible for the Income Contingent Repayment Plan under the Direct Loan Program.

If a Direct Consolidation Loan includes a federal parent loan, at least one spouse must not have an adverse credit history.

- In these cases, borrowers have the option to appeal an adverse credit history to ED on the basis of extenuating circumstances or, alternatively, obtain a creditworthy endorser.

Take a Look

See Chapter 5 for details about adverse credit.

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Requirements that Apply to Both Spouses

Both spouses must:

- meet remaining eligibility criteria for consolidation, including in-school requirements (if the loan is an in-school consolidation) and
- agree to be held jointly and severally liable for repaying the total amount of the consolidation loan and to repay the loan regardless of any change in marital status.

A spouse is obligated to repay a joint Direct Consolidation Loan, even if the other spouse:

- dies,
- becomes totally and permanently disabled,
- has collection of loan obligation stayed by a bankruptcy filing,
- has a loan obligation discharged in bankruptcy, or
- refuses to pay.

Both spouses must meet deferment/forbearance eligibility requirements to be approved for deferments/forbearance.

Closed-School and False-Certification Discharges

Both spouses do not have to qualify for cancellation on the basis of closed-school, false-certification, or failure of a school to refund loan proceeds provisions. In these instances, however, ED cancels only the portion of the consolidation loan equal to the amount of the loan that would have been eligible for discharge.

Consolidating Parent Loans

Borrowers applying for Direct PLUS Consolidation Loans are subject to a credit check. Borrowers with adverse credit histories are ineligible. However, they still may be able to obtain a Direct PLUS Consolidation Loan by providing documentation of extenuating circumstances or by obtaining an endorser with a good credit history.

In the case of borrowers who are in default on federal parent loans, they may still be eligible for Direct PLUS Consolidation Loans by making satisfactory repayment arrangements with the holders of their defaulted loans.

Forbearance

Direct Consolidation Loan borrowers have the same forbearance options as borrowers who have other Direct Loans. Forbearance is discussed earlier in this chapter.

Take a Look

See page 2-27 for details about forbearance.

Discharge

Direct Consolidation Loans have the same discharge provisions as all Direct Loans, except that in some cases joint consolidation borrowers must *both* meet the discharge criteria to qualify (this is discussed on the previous page).

Take a Look

See page 2-29 for details about discharged loans.

Holder Responsibilities

Holders of loans that borrowers are consolidating into a Direct Consolidation Loan must certify the amount of those loans. Holders must forward certifications to ED within 10 business days of receiving ED's request. If a holder is unable to provide a certification, it must provide ED with a written explanation for not forwarding the information.

Laws & Regulations

- 34 CFR 685.215(f)

When a holder receives proceeds of a Direct Consolidation Loan from ED, it must apply the proceeds promptly to fully pay off the loan(s) being consolidated.

Laws & Regulations

- 34 CFR 685.215(k)

- ✦ If the amount paid by ED is greater than the amount owed, the holder must refund the excess to ED. ED, in turn, uses the returned amount to reduce the borrower's outstanding Direct Consolidation Loan balance.

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- If the amount paid by ED to a holder is not enough to pay off the loan being consolidated, the holder must notify ED in writing of the amount due so ED can pay the remainder.
    - To help with consolidation, tolerance amounts may apply when processing overpayments and underpayments.
- As part of this process, holders are responsible for notifying borrowers that their loans have been paid off.

Returned Funds From Schools

If a holder of a loan that has been consolidated receives returned funds from a school (previously referred to as a refund) on that loan, the holder must forward these funds to ED within 30 days of receipt. The holder must include an explanation of the source of the funds. ED applies the money to the borrower's outstanding Direct Consolidation Loan balance.

Direct Loans

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Chapter 3: Direct Loan Program Participant Responsibilities

Direct Loan Program Participant Responsibilities

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Chapter 3

Direct Loan Program Participant Responsibilities

Chapter 1 provided a brief summary of the responsibilities undertaken by the three main Direct Loan participants:

- borrowers (students and parents),
- schools, and
- the U.S. Department of Education (ED).

This chapter looks at their responsibilities in depth.

Borrower Responsibilities

Chapter 2 discusses each of the Direct Loan types that are available to students and parents. Students may borrow Direct Subsidized Loans and Direct Unsubsidized Loans; parents may borrow Direct PLUS Loans. Both students and parents may obtain Direct Consolidation Loans.

Take a Look

See Chapter 2 for details about the types of Direct Loans available to students and parents.

This section of Chapter 3 describes the responsibilities that students and parents assume when they borrow any type of Direct Loan. The topics covered are borrowers:

- applying for Direct Loans,
- providing information to schools,
- providing information to ED, and
- repaying Direct Loans.

This section also addresses default. Discussion focuses on what default is, the consequences of defaulting, how borrowers can avoid default, and, once in default, how borrowers can reestablish eligibility for federal student financial aid.

Applying for Direct Loans

The Direct Loan Program has streamlined borrower application requirements resulting in a process that is easy for students and parents. It also decreases the administrative burden on Direct Loan schools.

Laws & Regulations

- 34 CFR 685.201

Application Requirements for Direct Loans for Students

The Free Application for Federal Student Aid (FAFSA) is the only application required for students to apply for Direct Subsidized Loans and Direct Unsubsidized Loans.

- The FAFSA is forwarded to ED's Central Processing System (CPS) to calculate the Expected Family Contribution (EFC).
- The CPS sends the processed information, including the EFC, to the school as an electronic Institutional Student Information Record (ISIR) and to the student in a hard copy as a Student Aid Report (SAR) or SAR Information Acknowledgement.
- ED's *Student Financial Aid (SFA) Handbook Student Eligibility* has more information about EFC.

Although the FAFSA is the only application required, students must also complete and sign a master promissory note to receive a Direct Loan.

Reference

- *SFA Handbook: Student Eligibility*

Application Requirements for Direct Loans for Parents

Parents must submit a specific Direct PLUS Loan application/promissory note to the school.

- Parents (and the student for whom the parents are borrowing) do not have to complete a FAFSA if the student is not applying for other Title IV aid or nonfederal funds that do not require the FAFSA.

Application Requirements for Direct Consolidation Loans (Students and Parents)

Direct Consolidation Loans are available to borrowers who have Direct Loans for students (subsidized and/or unsubsidized) or parent loans (Direct PLUS Loans). Loans from other federal student aid programs, such as the FFEL Program and Federal Perkins Loan Program, can also be included in a Direct Consolidation Loan.

Take a Look

See Chapter 2 for details about Direct Consolidation Loans.

To obtain a Direct Consolidation Loan, borrowers must complete an application and promissory note and submit it to ED's Direct Loan Origination Center (LOC).

- Even if a borrower wants to consolidate a combination of subsidized, unsubsidized, and parent loans, he or she needs only to complete a single application and promissory note.

Providing Information to Schools

Direct Loan regulations require borrowers to provide schools with specific information. Borrowers must:

Laws & Regulations

- 34 CFR 685.206(a)

- certify that the Direct Loan funds will be used for the student's cost of attendance;
- submit information about outstanding Direct Loans and FFEL Program loans;
    - In the case of Direct PLUS Loans, parent borrowers must include the outstanding indebtedness of the dependent undergraduate students on whose behalf they are borrowing.
- provide information demonstrating eligibility for Direct Loans; and
- authorize schools to release relevant eligibility information to ED.
    - Examples of information that schools might share with ED include borrower's enrollment status, amounts of financial assistance, and employment records.

Take a Look

See Chapter 5 for details about dependency status and other borrower eligibility requirements.

Borrowers are also required to promptly notify schools of address changes.

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Because ED has designed its Direct Loan systems and procedures to limit administrative burdens on borrowers and schools, some of these information requirements are incorporated into the application process. Here are a few examples:

- The "Statement of Educational Purpose" that appears on the FAFSA—and is signed when the FAFSA is submitted—fulfills the certification requirement for the borrower to certify how he or she plans to use Direct Loan funds.
- A "Statement of Educational Purpose" that must be signed is also included on the Direct PLUS Loan application/promissory note for parents who will not be filing a FAFSA.
- ED matches FAFSA application information with other databases to collect most of the information necessary to demonstrate that a borrower is eligible for a Direct Loan.
  - One database match is with the National Student Loan Data System (NSLDS), which stores federal education loan information about individual borrowers. This includes information about borrowers' outstanding indebtedness and default status.

Providing Information to ED

Laws & Regulations

- 34 CFR 685.206(b)

Borrowers must notify ED's Direct Loan Servicing Center (DLSC) promptly whenever borrowers or the students for whom they borrow:

- change name, address, phone number, or Social Security number (SSN),
- transfer to another school,
- withdraw or fail to enroll in school,
- register for or drop to a less-than-half-time status, or
- change employment, including a change in employer's address.

Obligation to Repay

Students and parents are expected to repay the full amount of what they've borrowed from the Direct Loan Program. The "full amount" refers to:

- ✦ principal balance of the loan,
- ✦ fees,
- ✦ interest not subsidized by ED, and
- ✦ collection costs permitted by the regulations, if applicable.

Laws & Regulations

- 34 CFR 685.207(a)

Borrowers are responsible for:

- ✦ making monthly payments when due, unless ED has approved deferment or forbearance, and
- ✦ notifying the DLSC of anything that might change eligibility for an existing deferment or forbearance.

There are some occasions when borrowers are released from their obligation to repay their Direct Loans. Examples include loans that were discharged because a borrower's school closed or falsely certified a loan.

Take a Look

See Chapter 2 for details about loan discharge.

When Borrowers Begin Repaying Direct Loans

Laws & Regulations

- 34 CFR 685.207(b) & (c)

In general, the repayment period on Direct Subsidized Loans and Direct Unsubsidized Loans begins the day after the end of a borrower's six-month grace period. The first monthly installment payment is due within 60 days after the repayment period begins.

Example

Steve borrowed a total of $4,000 in Direct Subsidized Loans for a two-year associate's degree program at the local community college. He graduated at the end of May.

- ✓ His grace period began June 1.
- ✓ It ended six months later, on November 30. His repayment period began on December 1.
- ✓ Steve's first monthly installment payment was due on February 1, which is within 60 days after his repayment period began.

Take a Look

See Chapter 2 for details about grace periods and information related to repayments, such as repayment plans.

Take a Look

See Chapter 2 for details about in-school periods, grace periods, deferment periods, forbearance periods, interest, and capitalization.

Laws & Regulations

- 34 CFR 685.207(d)

Take a Look

See Chapter 6 for details about disbursing Direct Loans.

For Your Information

To keep the focus on when repayments begin, the example does not address the loan fee ED charges on all Direct Loans. This fee is deducted from each Direct Loan disbursement.

- In this example, the actual amount of each disbursement would be $4,800 ($5,000 principal *minus* 4% Direct PLUS Loan fee of $200).
- This means the total amount disbursed would be $9,600 ($10,000 principal *minus* 4% Direct PLUS Loan fee of $400).

Despite the deducted loan fees, borrowers still owe and must repay principal and interest on the full amount borrowed.

- In this example, Ms. Leonard must repay principal of $10,000 and any interest that accrues.

During in-school periods (at least half-time enrollment at an eligible institution) and grace periods, borrowers are not required to repay the principal on their Direct Subsidized Loans and Direct Unsubsidized Loans.

- ✦ However, interest accrues on Direct Unsubsidized Loans, which borrowers can repay as it accrues or have capitalized.
- ✦ If a loan is not in an authorized deferment period or forbearance period, a borrower must continue making payments on Direct Loans that entered repayment before the in-school period began.

For any Direct PLUS Loan, interest begins to accrue on the day of the first disbursement for that loan. The repayment period begins on the day the loan is fully disbursed. Borrowers start making monthly payments within 60 days of the start of the repayment period. There is no grace period.

Example

Ms. Leonard borrowed a $10,000 Direct PLUS Loan for her daughter, Joyce, to enroll as a freshman at a private four-year college. The college divides its academic year into two semesters, fall and spring. The loan was applied to Joyce's school account in two equal disbursements, $5,000 for the fall semester (which began in September) and $5,000 for the spring semester (which began in January).

- ✓ With the first $5,000 disbursement in September, interest began accruing on the $5,000 amount that was disbursed.
- ✓ With the second (and final) disbursement of $5,000 in January, interest began accruing on the full $10,000, and the repayment period also began.
- ✓ Ms. Leonard's first monthly payment was due in March, 60 days after the January disbursement.

September	January	March
✓ $5,000 disbursed ✓ Interest accrues on $5,000	✓ $5,000 disbursed ✓ Interest accrues on $10,000 ✓ Repayment period begins	✓ First payment on $10,000 and accrued interest is due within 60 days after loan is fully disbursed

During deferment periods and forbearance periods, Direct PLUS Loan borrowers do not have to make regular monthly payments on their loans. Interest accrues, though. A borrower may pay the interest as it accrues, or the interest will be capitalized at the end of the deferment period or forbearance period.

For all Direct Consolidation Loans, except those made while borrowers are in an in-school period:

- There is no grace period.
- The repayment period begins on the day the borrower's loans are successfully consolidated—this is the day all loan holders are paid in full by ED.
- Interest begins to accrue the day the loan is made.
- Monthly installment payments start within 60 days of the beginning of the repayment period.

Laws & Regulations

- 34 CFR 685.207(e)(1)

For Direct Subsidized Consolidation Loans obtained during an in-school period:

- There is a six-month grace period.
- Interest does not accrue during the in-school period and the grace period.
- The repayment period begins the day after the six-month grace period ends.
- Monthly installment payments start within 60 days of the beginning of the repayment period.

Laws & Regulations

- 34 CFR 685.207(e)(2)

For Direct Unsubsidized Consolidation Loans obtained during an in-school period:

- There is a six-month grace period.
- Interest accrues throughout the life of the loan, including the in-school period and the grace period.
- The repayment period begins the day after the grace period ends.
- Monthly installment payments start within 60 days of the beginning of the repayment period.

Laws & Regulations

- 34 CFR 685.207(e)(3)

Borrowers in Correspondence Programs

The timing for repaying Direct Loans for borrowers enrolled in correspondence programs is the same as for all Direct Loan borrowers. That is:

- the repayment period on Direct Subsidized Loans and Direct Unsubsidized Loans begins the day after the six-month grace period ends, and
- monthly installment payments start within 60 days of the beginning of the repayment period.

Laws & Regulations

- 34 CFR 685.207(f)

Unlike for other Direct Loan borrowers, the grace period for Direct Subsidized Loan and Direct Unsubsidized Loan borrowers (student borrowers) who are in correspondence programs begins on the earliest of:

- the date the student completed the program;
- the date the student fell 60 days behind the due date for submitting a scheduled assignment; or
  - A school has the authority to restore the in-school status for students who are 60 days late with an assignment. However, a student in this situation must have provided the school with a written statement that documents his or her intention to complete the program before the 60-day period was over. This statement must also show that the student understands that remaining lessons must be submitted on time.
- 60 days after the latest allowable date established by the school for completing the program.

Default

Laws & Regulations

- 34 CFR 685.102
- HEA, Title IV, Section 435(l)

Borrowers not making timely monthly payments become delinquent and are at risk of defaulting on their Direct Loans. Default occurs when:

- for borrowers with Direct Loans disbursed before October 7, 1998, a payment is 180 days late, and
- for borrowers with Direct Loans disbursed on or after October 7, 1998, payment is 270 days late.

Avoiding Default

Most borrowers repay their loans on time, but some fall behind on payments for a variety of reasons, such as loss of employment. Borrowers can use Direct Loan Program features, such as deferments and forbearance, to avoid delinquency and default. Borrowers who are knowledgeable about these features are in a better position to assess their financial circumstances and tailor their repayments accordingly without defaulting.

If borrowers are having trouble keeping up with their monthly payments, they should get in touch with ED's Direct Loan Servicing Center (DLSC) immediately.

- The DLSC is open from 8 am to 8:30 pm (ET) Monday through Friday.
- In addition to a toll-free telephone number, borrowers can contact the DLSC through its Web site.
- Complete contact information for the DLSC is in Appendix A.

In addition, ED produces many Direct Loan Program publications for student borrowers and parent borrowers as well as for financial aid administrators. These publications describe the terms and conditions of each type of Direct Loan. They offer advice that helps borrowers successfully repay their Direct Loans. They also offer information that financial aid administrators can use when working with Direct Loan borrowers.

Consequences of Default

If a borrower defaults on a Direct Loan, ED will "accelerate the loan." This means that ED declares that the entire principal balance of the Direct Loan plus accrued interest is immediately due and payable. Once this happens, ED is allowed to take any action authorized by law to collect the defaulted loan. This includes, but is not limited to:

- filing lawsuits against defaulted borrowers,
- reporting defaults to national credit bureaus,
- requesting the Internal Revenue Service (IRS) to offset borrowers' income tax refunds to repay defaulted loan amounts, and

☎ **Where to Call**

The toll-free telephone number for the DLSC is:

- 1-800-848-0979

Web site

- http:/www.dlservicer.ed.gov

Take a Look

See Appendix A, page A-4, for complete contact information.

Reference

- *Repayment Book: William D. Ford Federal Direct Loan Program*
- *Direct PLUS Loans: A Guide to Federal Education Loans for Parents*
- *Entrance Counseling Guide for Borrowers*
- *Entrance Counseling Guide for Counselors*
- *Exit Counseling Guide for Borrowers*
- *Exit Counseling Guide for Counselors*

- garnishing borrowers' wages.

Before taking action on a defaulted Direct Loan, ED provides the borrower with a written notice of the action it proposes to take. The notice gives the borrower an opportunity to enter into a repayment agreement with ED.

- Once ED notifies a credit bureau of the default, the credit bureau is allowed to provide credit inquirers with information about the borrower's defaulted loan for up to seven years from the date ED first reported the default.
- For borrowers who reenter repayment after defaulting on their Direct Loans and then allow their loans to go back into default, credit bureaus can provide information to credit inquirers for up to seven years from the date the loans enter default for the second time.

Placing Defaulted Borrowers on Income Contingent Repayment

Laws & Regulations

- 34 CFR 685.211(c)(3)(ii)

ED has the authority to require certain Direct Loan borrowers in default to repay their loans on the Income Contingent Repayment Plan. This authority applies to borrowers with defaulted:

- Direct Subsidized Loans,
- Direct Unsubsidized Loans,
- Direct Subsidized Consolidation Loans, or
- Direct Unsubsidized Consolidation Loans.

Take a Look

See Chapter 2 for details about Direct Loan repayment plan options, including the Income Contingent Repayment Plan.

Direct PLUS Loans and Direct PLUS Consolidation Loans are never eligible for the Income Contingent Repayment Plan.

Losing and Regaining Title IV Eligibility

Laws & Regulations

- 34 CFR 668.35
- 34 CFR 685.102(b)
- 34 CFR 685.200(c)

Borrowers who default on Direct Loans are not eligible for any Title IV federal student financial aid. In general, borrowers in default also lose their eligibility for deferments on their loans, although ED can grant forbearance on defaulted loans.

Borrowers with defaulted Direct Loans regain their Title IV eligibility by repaying their defaulted loans in full. There are also other actions that borrowers can take to reinstate their eligibility for federal financial aid and deferments. These are:

- making satisfactory repayment arrangements to repay defaulted loans,
- rehabilitating defaulted loans, or
- consolidating the defaulted loans under 34 CFR 685.215(d)(1)(ii)(E) or (F).

Satisfactory repayment arrangements. Other than when consolidating a defaulted loan, a borrower has made "satisfactory repayment arrangements" when he or she has made six consecutive, voluntary, on-time, full monthly payments on a defaulted loan.

- "On-time" means that each payment is made within 15 days of the scheduled due date.
- "Voluntary" means that the borrower is making the payments directly, regardless of whether there is a judgment against him or her. For example, payments are not considered voluntary if they are obtained by income tax offsets, garnishment, or income or asset execution.
  - Income and asset execution are ways of collecting against a judgment. The creditor receives a portion of the debtor's income (income execution) or the creditor seizes and sells an asset owned by the debtor and applies the sale proceeds toward the debt (asset execution).

Once a borrower has made the sixth payment, he or she regains Title IV eligibility. If the borrower regains eligibility during an enrollment period, his or her eligibility becomes effective for the entire enrollment period.

- Satisfactory repayment arrangements are an option for regaining Title IV eligibility only once.
- If a borrower defaults again after making satisfactory repayment arrangements, he or she cannot regain Title IV eligibility using this option.

Rehabilitation. Borrowers with defaulted Direct Loans can "rehabilitate" their loans, thereby reversing the default. Rehabilitation requires borrowers to make 12 consecutive, on-time, reasonable, and affordable monthly payments. The 12 payments include, and are not in addition to, the six consecutive monthly payments needed to regain Title IV eligibility.

After a borrower has rehabilitated a defaulted Direct Loan, ED instructs any credit bureau to which the default was reported to remove the default from the borrower's credit history.

Consolidation. For details, see the section on consolidating defaulted loans beginning on page 2-46.

Borrower Defenses

Laws & Regulations

- 34 CFR 685.206(c)

A borrower may assert a defense against repaying a Direct Loan on the basis of any act or omission by a school that the borrower attended. Such an "act" or "omission" would have to give rise to a cause of action against the school under applicable state law. The borrower has the right to assert this defense in any proceeding to collect on the loan, such as:

- tax refund offset proceedings,
- wage garnishment proceedings,
- salary offset proceedings for federal employees, or
- credit bureau reporting proceedings.

If a borrower succeeds in his or her defense against repaying a Direct Loan, ED notifies the borrower that he or she is relieved of the obligation to repay all or part of the loan and associated costs and fees. ED may provide the borrower with further relief as deemed appropriate on the basis of the borrower's circumstances. Examples of further relief include:

- reimbursing the borrower for amounts paid toward the loan voluntarily and through enforced collection,
- determining that the borrower is not in default on the loan and is eligible to receive assistance from Title IV program funds, and
- updating reports to credit bureaus to which ED made adverse credit reports about the borrower's Direct Loan.

Sometimes schools are liable for Direct Loans that result in a borrower's successful defense against repayment. This is addressed later in this chapter.

Take a Look

See page 3-21 for details about effects on school liability.

School Responsibilities

In general, school responsibilities revolve around:

- meeting and maintaining loan-program-participation requirements,
- establishing borrower eligibility,
- originating Direct Loans,
- drawing down and disbursing Direct Loan proceeds,
- counseling students,
- notifying the Loan Origination Center (LOC) of changes to borrower information,
- reconciling school-based Direct Loan records with records in ED's Direct Loan database,
- carrying out administrative and fiscal management functions, and
- reporting changes in borrower enrollment status to ED.

Detailed information about these responsibilities appears in Part Two of this guide. The chapters in Part Two focus on the processes schools and ED perform to make and administer Direct Loans. This section provides brief summaries of each area of responsibility with references to the chapters in Part Two that have detailed information.

Schools must also develop and maintain a Direct Loan quality assurance system. The *Direct Loan Quality Assurance Planning Guide* in Appendix D covers this topic in depth.

Take a Look

See Appendix D for the *Direct Loan Quality Assurance Guide.*

Participation Requirements

Laws & Regulations

- 34 CFR 685.400 & 668
- HEA, Title IV, Section 435(a)

Take a Look

See Chapter 4 for details about participation requirements and applying to participate.

Reference

- *SFA Handbook: Institutional Eligibility and Participation*

Chapter 4 offers extensive information about school participation requirements. In brief, Direct Loan schools must meet the same eligibility requirements that apply to all schools participating in Title IV programs.

- These requirements are specified in the General Provisions of the regulations, as well as in the Higher Education Act of 1965, as amended (HEA). These include ED's electronic capability requirements for schools.

- ED's *Student Financial Aid (SFA) Handbook: Institutional Eligibility and Participation* provides detailed information about these requirements.

Initially, to be *selected* to participate in the Direct Loan Program, schools must have a student-loan cohort default rate of less than 25 percent for at least one of the three most recent fiscal years for which data are available. In addition, schools cannot be subject to an emergency action or a proposed or final Title IV limitation, suspension, or termination (LS&T) action.

Once schools are accepted into the Direct Loan Program, they must sign a Direct Loan Program amendment to their Participation Agreement (PPA) with ED. They also must continue to meet all eligibility requirements.

Overview of School Origination Options

Take a Look

See Chapter 4 for details about school origination options.

There are three school origination options: Standard Origination, Origination Option 1, and Origination Option 2. These define which loan processing functions a school performs and which functions ED's Loan Origination Center (LOC) performs.

- Any school approved by ED to participate in the Direct Loan Program may participate as a Standard Origination school. At this level, responsibility and control are shared between the school and the LOC.

- Origination Option 1 schools perform more loan processing functions than Standard Origination schools, but the LOC still controls certain functions.

- ✦ Origination Option 2 schools have the most responsibilities, but can choose to have the LOC do certain loan processing functions for them.

The following chart, which is also in Chapter 4, shows how responsibility for processing Direct Loans is divided between schools and the LOC for each school origination option.

Direct Loan Origination Options

Responsibility	Standard Origination	Origination Option 1	Origination Option 2
Create loan origination records	✓	✓	✓
Transmit loan origination records to LOC	✓	✓	✓
Prepare promissory note	LOC	✓	✓
Obtain completed/signed promissory note	LOC	✓	✓
Send promissory note to LOC	n/a	✓	✓
Calculate need for Direct Loan funds	LOC	LOC	✓
Request Direct Loan funds from GAPS	LOC	LOC	✓
Receive funds from GAPS	✓	✓	✓
Disburse loan funds to borrowers	✓	✓	✓
Create disbursement records	✓	✓	✓
Transmit disbursement records to LOC	✓	✓	✓
Perform reconciliation	✓	✓	✓

Legend
✓ = school's responsibility
LOC = Loan Origination Center's responsibility
n/a = not applicable

When schools apply to participate in the Direct Loan Program, they may indicate their preference for a school origination option. However, ED makes the decision on the basis of specific criteria that are contained in the regulations and law. These are explained fully in Chapter 4.

Borrower Eligibility

Schools are responsible for assuring that only students and parents who are eligible to borrow Direct Loans receive funds from the program. There are numerous borrower eligibility requirements, which are specified in

Laws & Regulations
- 34 CFR 685.200
- 34 ~~CFR 685~~.300(b)
- 34 CFR 668, Subpart C

federal regulations. Some of the requirements apply to all recipients of Title IV funds; others apply only to Direct Loan borrowers.

Take a Look

See Chapter 5 for details about borrower eligibility.

More information about borrower eligibility requirements appears in Chapter 5. It also includes checklists that schools can use when assessing students' and parents' eligibility for Direct Loans. One checklist is for student borrowers, and one is for parent borrowers.

Originating Direct Loans

Laws & Regulations

- 34 CFR 685.301

Regardless of their school origination option, all Direct Loan schools are responsible for originating loans. The Direct Loan origination process is similar to the loan certification process in the FFEL Program. In both cases, schools provide loan data that deal with the eligibility of borrowers to receive loans.

Take a Look

See Chapter 6 for details about the loan origination process.

A school originates a Direct Loan by creating a loan origination record. This record becomes part of the borrower's permanent loan record in ED's Direct Loan database. The loan origination record consists of demographic, financial, and statistical information. Most of the information comes from three sources:

- the FAFSA, which the school receives from ED's Central Processing System (CPS) as an Institutional Student Information Record (ISIR);
- the school's internal records; and
- data generated by ED's Direct Loan systems.

The loan origination record is the foundation for any Direct Loan. Without it, no other processing can take place because having the LOC accept a loan origination record is the first of three components needed to "book" a loan.

Take a Look

- See Chapter 6 for details about promissory notes.
- See Chapter 7 for details about disbursement records.

- When a loan is booked, there is an official and legally binding obligation between the borrower and ED.
- The other two components for booking a Direct Loan are having an LOC-accepted promissory note and disbursement record, which are briefly discussed in this section and more fully in Chapters 6 and 7.

Schools send loan origination records directly to the LOC. When a loan origination record is accepted by the LOC, two events occur:

- The LOC sends a disclosure statement to the borrower. (Schools can request ED to authorize them to print and distribute disclosure statements to borrowers, rather than having the LOC do it.)
- Depending on the school's origination option, either the school or the LOC prints promissory notes and collects the signed notes from borrowers.
    - The LOC prints and collects signed promissory notes for Standard Origination schools.
    - Origination Option 1 schools and Origination Option 2 schools have the authority to print and collect signed promissory notes, although they can allow the LOC to do it for them. If these schools collect signed promissory notes from borrowers, they must forward the notes to the LOC.

When the LOC accepts a completed and signed promissory note, whether it comes from a borrower or a school, it sends an acknowledgment to the school.

Drawdowns and Disbursements

When a school is ready to receive Direct Loan funds, it (or the LOC on the school's behalf), makes a drawdown request to ED's Grant Administration and Payment System (GAPS).

Take a Look

See Chapter 7 for details about drawing down funds and making disbursements.

Laws & Regulations

- 34 CFR 685.303(b)

- Origination Option 2 school have the authority to make their own drawdown requests. Requests are made on the basis of estimates for disbursing Direct Loan funds. Requests do not have to be borrower-specific.
- The LOC must make drawdown requests for Standard Origination schools and Origination Option 1 schools. The requests must be borrower-specific.

Laws & Regulations

- 34 CFR 685.303(c)
- 34 CFR 668.164

Except when a disbursement otherwise would be prohibited, a disbursement occurs when a school credits a student's account or pays a

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borrower directly with Direct Loan funds or with school funds used before receiving Direct Loan funds. Before disbursing any funds, schools must:

- confirm that a signed, completed promissory note has been returned by the borrower,
- verify that the borrower remains eligible to receive Direct Loan funds, and
- verify that the borrower is eligible to receive the amount of Direct Loan funds about to be disbursed.

For a disbursement to be made, a valid, completed promissory note (signed, dated, any changes initialed and dated, and so on) must be on file at the school or the LOC. If a valid, completed promissory note is not on file, the school may be liable for any disbursements.

Standard Origination schools and Origination Option 1 schools must disburse funds to specific borrowers for whom drawdown requests were made. If a school doesn't disburse funds to the intended borrower, the funds must be returned to ED.

Origination Option 2 schools may time their requests for funding on the basis of when they expect to disburse the funds. These schools may disburse available Direct Loan funds to any eligible borrower.

Take a Look

See Chapter 10 for details about cash management requirements that Direct Loan schools must follow.

All schools must send their disbursement records to the LOC within 30 days of the disbursement date. In addition, if Direct Loan funds are not disbursed within three business days of the date they were received from ED, a school must either return the funds promptly or, if the school meets the criteria for excess-cash tolerances in 34 CFR 668.166(b), within seven days.

Loan Counseling

Take a Look

See Chapter 7 for details about loan counseling.

Schools participating in the Direct Loan Program are required by law to conduct entrance loan counseling and exit loan counseling for students who borrow Direct Subsidized Loans and Direct Unsubsidized Loans. The purpose of this counseling is to help borrowers repay their loans and avoid default.

- Schools are not required to offer loan counseling to parents who borrow Direct PLUS Loans.

Entrance Loan Counseling

Entrance counseling is for most first-time borrowers. A first-time borrower is someone who has not previously received a Direct Subsidized Loan, Direct Unsubsidized Loan, Federal (non-Direct) Stafford Loan, and Federal (non-Direct) Unsubsidized Stafford Loan, or Federal Supplemental Loan for Students (SLS). Students who have received one or more of these loans are not considered first-time borrowers.

Schools can fulfill entrance loan counseling requirements by conducting counseling in person, using a video, or using computer-assisted technology. In each case, an individual with knowledge of Title IV programs must be reasonably available after the counseling to answer questions.

✦ ED produces entrance loan counseling publications and has computer-assisted counseling on its Direct Loan Web site.

Schools may adopt an alternative counseling approach, but no matter how counseling is presented, all schools must maintain documentation showing that each borrower received the required counseling.

Laws & Regulations

- 34 CFR 685.304(a)

Web site

- http://www.ed.gov/DirectLoan

Take a Look

See Chapter 7 for details about alternative counseling.

Exit Loan Counseling

Exit loan counseling is for students who have borrowed Direct Subsidized Loans and Direct Unsubsidized Loans and are graduating, withdrawing, or no longer attending school at least half time.

In general, schools must conduct exit loan counseling in person. However, schools may also use electronic means to provide personalized exit counseling. If a borrower withdraws from school without a school's knowledge, or if a borrower does not attend a scheduled exit loan counseling session, the school must mail written materials to the borrower at his or her last known address. The materials must be mailed within 30 days after the school learns that the borrower withdrew or failed to attend the counseling session. In-person or electronic counseling is not required for correspondence programs. Schools mail written counseling materials to borrowers in correspondence programs within 30 days after the borrower completes the program.

All schools must document each borrower's file to show that exit loan counseling took place.

Laws & Regulations

- 34 CFR 685.304(b)

Notifying the LOC of Changes

When changes to Direct Loan borrower information occurs, schools must notify the LOC by forwarding change records. All data items contained in a borrower's loan record are subject to change records. As a result, schools must inform the LOC whenever there is a change in demographic information, loan amounts, loan distributions between Direct Subsidized Loans and Direct Unsubsidized Loans, and anticipated disbursement dates.

Take a Look

See Chapter 8 for details about making changes to Direct Loan records.

Reconciliation

Reconciliation is the process by which a school verifies that its Direct Loan records match the LOC's.

There is a monthly reconciliation process using a Direct Loan School Account Statement (DLSAS). The DLSAS is similar to a bank statement. It contains cash and loan record information that schools can use to compare the information in their databases with the information that the LOC has. The LOC sends the DLSAS to each school on a monthly basis.

There is also an annual reconciliation process, which is called the "year-end closeout." It's similar to monthly reconciliation because the main purpose is for schools to match their internal records with the LOC's. However, instead of focusing on a single month, it addresses the entire academic year.

Schools that manage their data successfully usually do not have problems with reconciliation. However, schools that don't maintain accurate and consistent internal data and do not submit data to the LOC in a timely manner often find reconciliation difficult.

Take a Look

See Chapter 9 for details about reconciliation.

Administration, Fiscal Control, & Fund Accounting

Schools that participate in any of the Title IV programs must comply with federal regulations for administrative capability, fiscal responsibility, and fund accounting. These regulations are in the General Provisions and described in detail in ED's *Student Financial Aid (SFA) Handbook: Institutional Eligibility and Participation.*

Laws & Regulations

- 34 CFR 668, Subparts B, K, & L
- 34 CFR 685.309

This information is not the focus of this guide. However, certain requirements are of particular importance to Direct Loan schools. For example, schools must follow:

- accounting requirements,
- student status confirmation reporting (SSCR) requirements, and
- electronic processing requirements.

Reference

- *SFA Handbook: Institutional Eligibility and Participation*

Schools also need to be aware of the liabilities they can incur if they are not in compliance with these requirements.

Chapter 10 provides information about federal accounting requirements by addressing Direct Loan cash management issues. Chapter 11 explains the SSCR process. Brief discussions about electronic processing requirements and school liability appear below.

Take a Look

- See Chapter 10 for details about cash management.
- See Chapter 11 for details about SSCRs.

Electronic Processing

Schools participating in any Title IV program, including the Direct Loan Program, are required to participate electronically. Electronic processing requirements are in Appendix E.

Take a Look

See Appendix E for details about Title IV electronic processing requirements.

To help schools meet electronic processing requirements, ED offers free software, called EDExpress, which includes a Direct Loan module. The software is PC-compatible. In addition, ED provides specifications for schools, third-party servicers, and software vendors that want to develop their own software.

School Liability

ED can require schools to repay Direct Loan funds and purchase loans that are unenforceable or were disbursed to ineligible borrowers. Schools may become liable for Direct Loans when they violate federal statute or regulation, or if they allow false certification of loans (either willfully or through negligence). A school can also become liable when a borrower makes a successful defense against repaying a Direct Loan because of an "act" or "omission" on the part of the school under state law.

Reference

- *SFA Handbook: Institutional Eligibility and Participation*

Laws & Regulations

- 34 CFR 668, Subpart G

In addition, in these and in some other cases, ED may:

- impose a fine;
- take an emergency action; or
- otherwise limit, suspend, or terminate a school's participation in the Direct Loan Program and/or in other Title IV programs.

ED Responsibilities

ED has overall responsibility for administering the Direct Loan Program and facilitating interactions among the program's participants (borrowers, schools, and ED's servicers and databases). ED has staff and resources to assure that Direct Loan systems operate smoothly and that students and schools receive excellent customer service.

ED maintains and supports the Direct Loan Program by performing the following functions:

- developing Direct Loan regulations with input from the financial aid community;
- supplying free instructional materials, software, and technical specifications that schools need for their Direct Loan computer operations;
- providing technical and computer support to help schools with Direct Loan processes from origination to reconciliation;
- training school personnel at ED regional training facilities (RTFs) and on-site at schools (at the invitation of schools);
- producing and distributing materials that schools need to administer the Direct Loan Program, such as promissory notes, loan counseling guides and videos, and technical references;
- monitoring ED's servicers, specifically, the Direct Loan Origination Center (LOC) and the Direct Loan Servicing Center (DLSC);
- maintaining ED's databases, such as the Central Processing System (CPS) and the National Student Loan Data System (NSLDS); and

- assessing program performance and modifying operating processes on the basis of assessments.

The remainder of this section highlights four broad areas for which ED is responsible:

- customer service resources;
- the LOC,
- the DLSC, and
- ED databases that relate to the Direct Loan Program.

ED Customer Service Resources

ED has committed substantial resources to assure the success of the Direct Loan Program. These include:

- the Direct Loan Task Force,
- Client Account Managers (CAMs),
- ED's Accounting and Financial Management Service (AFMS),
- ED's modern regional training facilities (RTFs),
- the LOC's customer service representatives, and
- the DLSC's School Relations section.

Direct Loan Task Force

The Direct Loan Task Force (also known as the "Task Force") manages policy and operations for the Direct Loan Program. Its staff is located in Washington, D.C., and it oversees the activities that support the more than 1,600 postsecondary schools participating in the program. The Task Force works with ED's Institutional Participation and Oversight Service (IPOS) on school eligibility issues, provides technical assistance and training, and coordinates the administrative aspects needed to keep the program running smoothly.

☎ **Where to Call**

The Direct Loan Task Force can be reached at 202-708-9951 from 7 am to 5 pm (ET).

Schools should feel free to contact Task Force staff members. They are ready and able to help with problems that can't be resolved elsewhere. Their telephone number is 202-708-9951. Complete contact information for the Task Force is in Appendix A.

Take a Look

See Appendix A, page A-4, for information about contacting the Direct Loan Task Force.

Client Account Managers (CAMs)

Direct Loan Client Account Managers (CAMs) provide a single-point of customer service to postsecondary institutions participating in the Direct Loan Program. CAMs provide training, systems support, and program information for financial aid administrators, business officers, and management information systems (MIS) personnel at Direct Loan schools.

CAMs are located in each ED regional office throughout the country. (Contact information is in Appendix A.) They are part of ED's team management approach for monitoring and assisting Direct Loan schools. Their primary purpose is to help schools succeed in managing the Direct Loan Program.

Take a Look

See Appendix A, page A-2, for information about contacting ED's CAMs.

Each CAM is assigned a portfolio of schools for which he or she is responsible. CAMs help with schools' general questions, troubleshooting, and referrals. If schools have complaints, CAMs research the problem, conduct follow-up, and work on finding a resolution. They also:

- conduct training at RTFs and on-site (at the invitation of schools);
- assist school personnel by providing technical assistance on-site and by telephone, email, fax, and letter;
- analyze school data to target and correct problems as early as possible; and
- participate in projects and initiatives that support the Direct Loan Program and other Title IV programs.

Accounting and Financial Management Service (AFMS)

ED's Accounting and Financial Management Service (AFMS) is responsible for:

- effectively and efficiently delivering Title IV federal student aid program funds to schools, lenders, and guaranty agencies;

- producing financial information and reports for ED, Congress, and other constituents; and
- improving financial systems and accounting controls to ensure equity, integrity, and accountability in the federal student financial aid programs.

AFMS oversees financial functions (receipts, disbursements, accounting, and reporting) for all Title IV programs.

- This includes the Direct Loan Program, the FFEL Program, the Federal Pell Grant Program, and the federal campus-based programs (Federal Perkins Loans, Federal Supplemental Educational Opportunity Grants [FSEOGs], and Federal Work-Study [FWS]).

AFMS's Loans Financial Management Division (LFMD) is responsible for developing, implementing, and carrying out financial policies and procedures affecting the Direct Loan Program and FFEL Program. Its Direct Loan Program Branch manages a financial system that obligates, disburses, receives, and reconciles Direct Loan funds. The branch is available to help schools when they:

- draw down Direct Loan funds through ED's Grant Administration and Payment System (GAPS),
- perform monthly reconciliation, and
- conduct year-end closeouts.

Appendix A contains contact information for AFMS.

Take a Look

See Appendix A, page A-3, for AFMS contact information.

Regional Training Facilities (RTFs)

To make Direct Loan training more accessible to all schools, ED has opened regional training facilities (RTFs) at all ten ED regional offices. ED also has a training facility at its headquarters in Washington, D.C.

ED regularly schedules program and technical training at the RTFs. Topics include overviews of the Direct Loan Program, Direct Loan reconciliation, EDExpress software, the National Student Loan Data System (NSLDS), and Title IV updates.

For Your Information

ED's regional offices are in:

- Boston, MA (Region I)
- New York City, NY (Region II)
- Philadelphia, PA (Region III)
- Atlanta, GA (Region IV)
- Chicago, IL (Region V)
- Dallas, TX (Region VI)
- Kansas City, KS (Region VII)
- Denver, CO (Region VIII)
- San Francisco, CA (Region IX)
- Seattle, WA (Region X)

Loan Origination Center (LOC) and Direct Loan Servicing Center (DLSC) Customer Service

Customer-service resources at the LOC and DLSC are described in the next sections.

Loan Origination Center (LOC)

ED established the Direct Loan Origination Center (LOC) to provide service to borrowers and students and to minimize Direct Loan administrative costs for schools and the federal government. The LOC works with schools throughout the origination, promissory note, and disbursement process. It also plays a key role in the reconciliation process.

The LOC's responsibilities include:

- receiving loan origination records, promissory notes, and disbursement records;
- printing and distributing promissory notes to schools and borrowers for Standard Origination schools or at the request of Origination Option 1 and Origination Option 2 schools;
- conducting credit checks for Direct PLUS Loan borrowers;
- booking loans and transferring them to the DLSC;
- initiating drawdowns of Direct Loan funds on behalf of Standard Origination schools and Origination Option 1 schools;
- performing government accounting and reconciliation functions for the Direct Loan Program;
- working with borrowers who want to obtain Direct Consolidation Loans (schools do not originate Direct Consolidation Loans);
- providing customer service to school representatives, such as financial aid administrators.

The LOC has a customer service team that provides a range of services for schools and borrowers.

- Its school relations customer service representatives (CSRs) assist schools with origination, drawdowns, disbursements, reconciliation,

Take a Look

See Chapter 4 for details about school origination options.

For Your Information

A "booked loan" is an official and legally binding obligation between the borrower and ED. To book a Direct Loan, the LOC must receive and accept:

- a complete origination record,
- a complete and signed promissory note, and
- a complete first disbursement record.

Once a loan is booked, the LOC transfers the loan to the DLSC.

and data transmissions. Schools also contact them to order any of ED's Direct Loan publications.

  - School relations CSRs have access to school resource consultants to help resolve problems.
  - Reconciliation specialists are teamed with school relations CSRs to offer step-by-step reconciliation assistance to schools. They also help schools with any financial and operational issues.

- For Direct Loan applicants (students and parents) who have questions about their loans, applicant services CSRs are available. They provide general Direct Loan information and can discuss repayment options.
- Spanish-speaking CSRs translate Direct Loan requirements and procedures into Spanish. They work directly with borrowers and school personnel who speak Spanish.

The CSRs also have a support team. It is divided into subteams that deal with school mainframe issues, promissory note corrections, computer technical support, correspondence from borrowers and schools, and third-party servicers.

The LOC's CSRs are available from 8 am to 8 pm (ET) from Monday through Friday. The telephone number is 1-800-848-0978. Additional contact information is in Appendix A.

Take a Look
See Appendix A, page A-3, for LOC contact information.

Direct Loan Servicing Center (DLSC)

Chapter 12 focuses entirely on ED's Direct Loan Servicing Center (DLSC). This section provides a brief overview of DLSC responsibilities.

Take a Look
See Chapter 12 for details about the DLSC.

Once Direct Loans are booked, the DLSC assumes responsibility for servicing and collection activities. These activities include contacting borrowers after initial loan disbursement; establishing borrowers' repayment plans; billing, tracking, and applying monthly payments; and adding and capitalizing accrued interest. The DLSC also reports Direct Loan information to the National Student Loan Data System (NSLDS); maintains audit trails; and responds to school and borrower inquiries.

The DLSC handles borrower requests for deferment and forbearance. It informs borrowers about deferment and forbearance options whenever it sends a repayment schedule or loan delinquency notification.

- Deferment and forbearance forms are available on the DLSC's Web site, or borrowers can telephone the DLSC to request the forms.

Web site

- http://dlservicer.ed.gov

Where to Call

- 1-800-848-0979

The DLSC acts on all deferment and forbearance requests within ten business days of obtaining the information it needs to make a decision.

In addition, the DLSC prepares and sends annual statements to all Direct Loan borrowers that contain data for the previous 12 months. Annual statements include borrower identification and address information, beginning account balance, account activity for the year, ending account balance, and a toll-free customer service telephone number.

Take a Look
See Appendix A, page A-4, for DLSC contact information.

The DLSC's operating hours are from 8 am to 8:30 pm (ET), Monday through Friday. To help meet customers' different needs promptly, the DLSC has separate telephone numbers for school services, borrower services, delinquent account and collections, and Direct Loan consolidation, as well as a TTD telephone number for hearing-impaired customers.

ED Databases

ED maintains a database for the Direct Loan Program, which resides with the DLSC. It contains information about borrowers that schools forward to the LOC in loan origination records and disbursement records, as well as information from the DLSC about borrowers' repayment plans, monthly payments, interest accrual, deferments, forbearance, and so forth. Data also reside in the LOC database until close-out for the year is complete.

Other ED databases also play an important role in the Direct Loan Program. These include:

- the Central Processing System (CPS),
- the Grant Administration and Payment System (GAPS), and
- the National Student Loan Data System (NSLDS).

This section provides a brief description of these systems and their connection to Direct Loan Program. Because communication between schools and ED databases are entirely electronic, ED's data exchange pathway is discussed first.

Title IV Wide Area Network (TIV WAN)

Part of the success of the Direct Loan Program is that schools and ED communicate electronically. This requires schools to use ED's Title IV Wide Area Network (also called Title IV WAN, or TIV WAN), which is an electronic pathway to exchange information about students who apply for and receive Title IV financial aid. For example, TIV WAN provides the link between schools and the LOC. TIV WAN also provides a link for schools to the CPS and NSLDS.

Take a Look

See Appendix A, page A-6, for TIV WAN contact information.

Schools must sign up to use TIV WAN. The sign-up form (Enrollment to Participate in the U.S. Department of Education's Title IV Wide Area Network) is available on ED's Information for Financial Aid Professionals (IFAP) Web site.

Web site

- http://ifap.ed.gov

Schools must determine which services they need and enroll appropriate individuals as "destination point administrators" for the specific services that they want them to be able to access. These services include:

- Direct Loans,
- CPS, Submit Initial Application Data,
- CPS, All Other Functions,
- Pell Grant Program,
- Campus-Based, FISAP,
- NSLDS, Batch Files, and
- NSLDS, On-line.

For Your Information

ED is in the process of replacing TIV WAN with a Student Aid Internet Gateway (SAIG). ED will notify schools as the transfer proceeds.

Central Processing System (CPS)

Take a Look

See Appendix A, page A-5, for CPS contact information.

The Central Processing System (CPS) is responsible for:

- reviewing data that students provide on the Free Application for Federal Student Aid (FAFSA),
- matching the FAFSA data with other databases (such as NSLDS and the U.S. Immigration and Naturalization Service's database) to check Title IV eligibility, and
- calculating Expected Family Contributions (EFCs) using the FAFSA data and need analysis formulas in the Higher Education Act of 1965, as amended (HEA).

Laws & Regulations

- HEA, Title IV, Part F

Reference

- *A Guide to SARs and ISIRs*

The CPS forwards the processed information (original FAFSA data, database match results, and EFC) to schools and students. Schools receive the information electronically on Institutional Student Information Records (ISIRs), which they use when determining a student's eligibility for Title IV aid, including Direct Loans. Students receive the same information in a paper format as Student Aid Reports (SARs) or SAR Information Acknowledgements.

Grant Administration and Payment System (GAPS)

Reference

- *U.S Department of Education Payee Guide for the Grant Administration and Payment System (GAPS)*

The Grant Administration and Payment System (GAPS) is a centralized financial management system designed to integrate ED's previously separate financial processes, including financial management, contracts and purchasing, grant administration, and payment management. This system, which schools access through the Internet, was designed to improve ED's financial management performance.

GAPS controls payments for ED's Title IV programs, including the Direct Loan Program, the Federal Pell Grant Program and the federal campus-based programs. In the Direct Loan Program, schools or the LOC (depending on a school's origination status) use GAPS to request Direct Loan funds.

National Student Loan Data System (NSLDS)

The National Student Loan Data System (NSLDS) is a national database that collects and maintains individual student data for all federal student loan borrowers with outstanding loan balances. It also houses selected data on students' Federal Pell Grants and Federal Supplemental Educational Opportunity Grants (FSEOGs).

Take a Look

See Appendix A, page A-6, for NSLDS contact information.

The CPS matches FAFSA data with NSLDS to identify students who are in default or owe overpayments. The CPS includes this information on ISIRs so that schools do not award Title IV aid, including Direct Loans, to these ineligible students.

Schools (or their third-party servicers) communicate directly with NSLDS in the Student Status Confirmation Report (SSCR) process. The SSCR process is the subject of Chapter 11.

Take a Look

See Chapter 11 for details about the SSCR process.

New Systems Site for ED Databases

ED has established a virtual data center (VDC) in Meriden, Connecticut, to house all of ED's student financial aid delivery system databases. ED consolidated these databases to improve service to schools, students, employees, and others. The VDC should also help reduce management costs and enhance efficiency. NSLDS, CPS, and Direct Loan databases have already moved to the Meriden facility.

The VDC has been integrated into ED's Modernization Blueprint, which is the successor to Project EASI (Easy Access for Students and Institutions). The Modernization Blueprint addresses what to do with ED's systems, what changes should come first, and how to reconcile this initiative with other ED modernization efforts and acquisition plans. It will also use commercial software and technologies from the private and public sectors to modernize ED's Office of Student Financial Assistance (OSFA).

More information about ED's Modernization Blueprint is on ED's Web site.

Web site

- http://ifap.ed.gov

Direct Loan School Guide

Part Two: The Process

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Direct Loans

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Chapter 4: Participating in the Direct Loan Process

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Participating in the Direct Loan Program

Chapter 4

Institutional Eligibility

Schools must meet certain basic eligibility requirements to be accepted into the Direct Loan Program and to continue participating. This section describes the minimum requirements. There are additional requirements for certain origination options, which are discussed later in this chapter.

Because negotiated rulemaking between ED and the postsecondary education community is under way, some of the processes described in this chapter may undergo major procedural changes in the latter part of 1999. Updates and changes will appear on the Direct Loan Web site and in ED mailings.

Basic Requirements

To be eligible for initial participation in the Direct Loan Program, a school must:

- meet all the Title IV federal student financial aid eligibility requirements that generally apply to schools, which are in the General Provisions regulations and the Higher Education Act of 1965, as amended (HEA),
- have a student loan Federal Family Education Loan (FFEL) Program cohort default rate of less than 25 percent for at least one of the three most recent fiscal years for which data are available, and
- not be subject to an emergency action or a proposed or final limitation, suspension, or termination (LS&T) action related to Title IV financial aid programs.

Take a Look

- Borrower eligibility is discussed in Chapter 5.
- See page 4-9 of this chapter for details about school origination options.

Web Site

- http://www.ed.gov/DirectLoan

Laws & Regulations

- 34 CFR 685.400
- 34 CFR 668
- HEA, Title IV, Section 435(a)

For Your Information

The following are exempt from the cohort default rate requirement: historically black colleges and universities (HBCUs), tribally controlled community colleges, and Navajo community colleges. However, based on the Higher Education Amendments of 1998, these schools must meet specific requirements that demonstrate their efforts to reduce their cohort default rates.

Take a Look

See Appendix E for details about ED's electronic requirements for schools.

A school must also meet ED's electronic capability requirements because the Direct Loan Program depends entirely on electronic processes. For example, Direct Loan schools must be able to exchange data with ED systems, including the Central Processing System (CPS), National Student Loan Data System (NSLDS), and Grant Administration and Payment System (GAPS), as well as with the Direct Loan Origination Center (LOC).

Once a school is accepted into the Direct Loan Program, it must:

- sign a Direct Loan amendment to its Title IV, HEA Program Participation Agreement (PPA) with the U.S. Department of Education (ED) and
- continue to meet all eligibility requirements.

Applying to Participate

Take a Look

See page 4-8 for a Direct Loan Enrollment Checklist.

It's easy for a school to notify ED that it wants to participate in the Direct Loan Program. This section offers a brief overview along with an at-a-glance school enrollment checklist that's designed to walk a school through the process.

School Starts the Process

To enroll in the Direct Loan Program, a school or its third-party servicer contacts ED by getting in touch with:

Take a Look

See Appendix A for lead CAM contact information.

- a regional Direct Loan Client Account Manager (CAM),
- ED's Direct Loan Task Force at **202-708-9951**, or
- ED's Institutional Participation and Oversight Service's (IPOS's) Direct Loan School Selection Staff at **202-708-6103**.

School Sends Letter

The school or its third-party servicer then sends the following information about the school to ED on official letterhead:

- name,
- mailing address,
- email address,
- OPE ID number,
- employer identification number (EIN),
- Data Universal Numbering System (DUNS) number,
- the president's or chief executive officer's (CEO's) name, address, telephone number, and fax number, and
- the financial aid director's name, address, telephone number, and fax number.
    - ◇ In the letter, the school also may request the origination option that it believes best serves it needs.

Take a Look

See page 4-9 for details about loan origination options.

The school sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)

Direct Loan Amendment

After receiving the school's information and determining the school is eligible, ED's Institutional Participation and Oversight Service (IPOS) sends a letter to the school with:

- the ED-approved origination option,
- two copies of the Direct Loan amendment (the amendment to the school's Title IV Program Participation Agreement) for the president or CEO to sign,
- a list of how to contact Client Account Managers (CAMs), and
- an origination options fact sheet.

Laws & Regulations

- 34 CFR 685.300(b)

By signing the Direct Loan amendment, the school agrees to:

- identify students eligible for financial aid,
- estimate their financial need,
- certify that borrowers have not exceeded annual or aggregate federal loan limits,
- provide timely and accurate information to ED,
- refrain from charging fees for loan origination activities or for providing Direct Loan information to students or parents,
- implement a quality assurance system, and
- comply with other provisions ED deems necessary to protect the interests of the United States and to promote the Direct Loan Program's purposes.

Take a Look

See page 4-9 for details about origination options.

IPOS is the entity within ED that determines a school's eligibility and the origination options available to it. For example, if a school is eligible to participate at Origination Option 2, the school will automatically be assigned Origination Option 2—unless it requested a lower origination option. The letter that accompanies the Direct Loan amendment goes into detail about this and explains how to request an origination option with less responsibility if one is available to the school.

The school's president or CEO signs and returns both copies of the Direct Loan amendment to IPOS at:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)

Once IPOS receives the two copies of the signed Direct Loan amendment, an IPOS representative countersigns. One copy is returned to the school for its records; IPOS keeps the other copy of the amendment for its records.

Banking Forms

Next, a school receives a letter from the Direct Loan Branch of ED's Accounting and Financial Management Service (AFMS) that contains banking forms needed for ED to conduct electronic funds transfers (EFTs) of Direct Loan funds to the school:

- an authorization for deposit form,
- a direct-deposit form for new accounts established for only Direct Loan funds, and
- a central drawdown form.

Take a Look

See Appendix A, page A-3, for AFMS contact information.

The appropriate school official completes and returns the forms. The school returns the forms to:

U.S. Department of Education
Accounting and Financial Management Service
ROB-3, Room 5125
400 Maryland Avenue, SW
Washington, DC 20202-5455

A school can't receive Direct Loan funds until ED receives these forms.

Welcome Package

At this point, ED assigns a Direct Loan Client Account Manager (CAM) to contact the school. The CAM provides the school with a welcome package and start-up assistance if the school requests it. The CAM also works with the school on an ongoing basis to assure that it successfully implements and administers the Direct Loan Program.

The welcome package consists of:

- a cover letter, which includes the school's official Direct Loan start date,
- process flowcharts that show how data are exchanged among the school and ED's systems, and
- important Direct Loan publications, such as Direct Loan Bulletins, a list of Direct Loan regulations, and this guide.

The welcome package also contains information about the Title IV Wide Area Network.

Title IV Wide Area Network

Part of the success of the Direct Loan Program for students and schools is a school's ability to communicate electronically with ED. To exchange information electronically, the school must use ED's Title IV Wide Area Network, also called Title IV WAN or TIV WAN, by completing and returning a TIV WAN enrollment agreement for Direct Loans. Information on how to enroll and where to send enrollment information is in "Dear Colleague" Letter GEN-98-24 (Action Letter #4). The form to sign up for TIV WAN is also available on ED's Information for Financial Aid Professionals (IFAP) Web site.

TIV WAN is the electronic pathway that schools and ED use to exchange information about students who apply for and receive financial aid. TIV WAN provides a link between schools and the ED systems already mentioned in this chapter, such as the CPS, NSLDS, and GAPS, as well as the Direct Loan Origination Center (LOC).

Schools entering the Direct Loan Program must designate a TIV WAN destination point to transmit and receive Direct Loan data. A school can establish itself as the destination point, or it may designate a third-party servicer. If it chooses, a school can have more than one destination point.

Destination points must be identified on a school's Title IV WAN enrollment agreement, transmissions, billings, password changes, and so on.

Reference

- "Dear Colleague" Letter GEN-98-24

Web Site

- http://ifap.ed.gov

For Your Information

For questions about a Title IV WAN enrollment agreement, transmissions, billings, password changes, and so on, call Title IV WAN customer service at 1-800-615-1189.

For Your Information

ED is in the process of replacing TIV WAN with a Student Aid Internet Gateway (SAIG). ED will notify schools as the transfer proceeds.

Testing

When a school signs up for the Direct Loan Program, the LOC forwards an electronic testing packet and calls the school to set up a testing schedule. The testing consists of transmitting test files to be sure the school's systems interface successfully with the LOC's. Once the testing is successfully completed, the school is ready to begin participating in the Direct Loan Program.

Direct Loan Enrollment Checklist

School begins the process

- ☐ To express an interest in participating, the school contacts one of the following:
  - ☐ a regional Direct Loan Client Account Manager (CAM),
  - ☐ ED's Direct Loan Task Force (202-708-9951), or
  - ☐ ED's Institutional Participation and Oversight Service's (IPOS's) Direct Loan School Selection Staff (202-708-6103)
- ☐ School or its third-party servicer then provides basic information on official letterhead:
  - ☐ School name, mailing address, and email address,
  - ☐ OPE ID number, EIN, and DUNS number,
  - ☐ President or CEO's name, address, telephone number, and fax number
  - ☐ Financial aid director's name, address, telephone number, and fax number
    - ☐ The school may request the origination option it feels will best serve its needs
- ☐ The school or its third-party servicer sends the information to:

  - U.S. Department of Education
  Institutional Participation and Oversight Service
  Data Management and Analysis Division
  Document Receipt and Control Center
  P.O. Box 44805, L'Enfant Plaza Station
  Washington, DC 20026-4805
  (Attn: Direct Loan School Selection)

ED sends a letter that includes two copies of the Direct Loan amendment to the school's Program Participation Agreement (PPA) and what the school's loan origination level will be

- ☐ School president or CEO signs and returns both copies of the amendment to the address given above

Once ED receives the signed Direct Loan amendment, someone from IPOS countersigns, and one copy is returned to the school for its records

- ☐ The Direct Loan branch of ED's Accounting and Financial Management Service (AFMS) sends a letter that includes:
  - ☐ Authorization for deposit form
  - ☐ Direct-deposit form for new accounts established for only Direct Loans
  - ☐ Central drawdown form
- ☐ The appropriate school official completes and returns the forms to:

  U.S. Department of Education
  Institutional Participation and Oversight Service
  Data Management and Analysis Division
  Document Receipt and Control Center
  P.O. Box 44805, L'Enfant Plaza Station
  Washington, DC 20026-4805
  (Attn: Direct Loan School Selection)
- ☐ School or its third-party servicer completes a Title IV WAN (TIV WAN) agreement for Direct Loans
- ☐ The Direct Loan Origination Center (LOC) contacts the school or its third-party servicer to set up electronic testing and sends a testing packet

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School Origination Options

IPOS assigns an initial loan origination option when it approves a school for the Direct Loan Program. The school's origination option determines which functions the school performs and which functions the Direct Loan Origination Center (LOC) performs in the Direct Loan process.

There are three loan origination options:

- Standard Origination,
- Origination Option 1, and
- Origination Option 2.

Standard Origination

Any school approved by ED to participate in the Direct Loan Program may participate as a Standard Origination school. At this option, responsibilities and control are shared between the school and the LOC.

The school is responsible for:

- creating loan origination records,
- transmitting loan origination records to the LOC,
- receiving Direct Loan funds from GAPS,
- disbursing funds to borrowers,
- creating disbursement records,
- transmitting disbursement records to the LOC, and
- performing reconciliation.

The LOC is responsible for:

- preparing promissory notes,
- obtaining completed and signed promissory notes from borrowers,
- calculating the school's need for Direct Loan funds,

Laws & Regulations

- 34 CFR 685.102(b)

From the Archives

- Standard Origination was formerly called Alternate Origination and Level 3.
- Origination Option 1 was formerly called Level 2.
- Origination Option 2 was formerly called Level 1.

- requesting Direct Loan funds from GAPS on behalf of the school, and
- sending Anticipated Disbursement Rosters and Actual Disbursement Rosters to the school.

Origination Option 1

An Origination Option 1 school performs more functions than a Standard Origination school (for instance, it handles promissory notes), but the LOC still controls requesting funds for disbursement.

Specifically, Origination Option 1 schools are responsible for:

- creating loan origination records,
- transmitting loan origination records to the LOC,
- preparing promissory notes,
- obtaining completed and signed promissory notes from borrowers,
- sending completed and signed promissory notes to the LOC,
- receiving Direct Loan funds from GAPS,
- disbursing funds to borrowers,
- creating disbursement records,
- transmitting disbursement records to the LOC, and
- performing reconciliation.

The LOC is responsible for:

- calculating the school's need for Direct Loan funds,
- requesting Direct Loan funds from GAPS on behalf of the school, and
- sending Anticipated Disbursement Rosters and Actual Disbursement Rosters to the school.

Origination Option 2

An Origination Option 2 school has the most responsibilities— including handling promissory notes and requesting funds for disbursement. An Origination Option 2 school has authority for:

- creating loan origination records,
- transmitting loan origination records to the LOC,
- preparing promissory notes,
- obtaining completed and signed promissory notes from borrowers,
- sending completed and signed promissory notes to the LOC,
- calculating the school's need for Direct Loan funds,
- requesting Direct Loan funds from GAPS,
- receiving Direct Loan funds from GAPS,
- disbursing loan funds to borrowers,
- creating disbursement records,
- transmitting disbursement records to the LOC, and
- performing reconciliation.

The LOC isn't required to perform any of these processing functions, although Origination Option 2 schools can choose to have the LOC take on certain functions for them.

Take a Look

See page 4-13 of this chapter for details about LOC choices that Origination Option 2 schools have.

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Direct Loan Origination Options

Responsibility	Standard Origination	Origination Option 1	Origination Option 2
Create loan origination records	✓	✓	✓
Transmit loan origination records to LOC	✓	✓	✓
Prepare promissory note	**LOC**	✓	✓
Obtain completed/signed promissory note	**LOC**	✓	✓
Send promissory note to LOC	**n/a**	✓	✓
Calculate need for Direct Loan funds	**LOC**	**LOC**	✓
Request Direct Loan funds from GAPS	**LOC**	**LOC**	✓
Receive funds from GAPS	✓	✓	✓
Disburse loan funds to borrowers	✓	✓	✓
Create disbursement records	✓	✓	✓
Transmit disbursement records to LOC	✓	✓	✓
Perform reconciliation	✓	✓	✓

Legend

✓ = school's responsibility
LOC = Loan Origination Center's responsibility
n/a = not applicable

Initial Origination Level

Laws & Regulations

- 34 CFR 685.402(a)(1)

As noted earlier, as part of the approval process for a school to take part in the Direct Loan Program, ED decides on a school's initial origination level. Generally this level is assigned for at least the first year in the program.

- Any approved school is automatically eligible to be a Standard Origination school.
- But, to participate at Origination Option 1 or Origination Option 2, a school has to meet criteria in addition to the minimum eligibility requirements.

Origination Option 1 and Origination Option 2

Schools that meet the following criteria are eligible to participate as Origination Option 1 or Origination Option 2 schools.

- In the three most recent years, the school must have participated in the Federal Perkins Loan Program or the Federal Pell Grant Program. Graduate and professional schools that do not administer these programs must have participated in a similar program, such as the Health Professions Student Loan Program or the Nursing Student Loan Program.
- The school cannot be on the reimbursement payment method for receiving Federal Pell Grant Program or Federal Supplemental Educational Opportunity Grant (FSEOG) funds.
- The school cannot be overdue on submitting its program, financial, and audit reports to ED.
- The school cannot have any serious performance deficiencies for any federal student aid program. This includes not having any deficiencies revealed by audits and program reviews that have taken place in the five calendar years immediately preceding the date the school applied to participate in the Direct Loan Program.
- The school has to be financially responsible according to standards set in Title IV General Provisions regulations.
- The school must be current on its federal cash transaction reports and may not have a final determination of cash on hand that exceeds immediate need for Title IV funds.
- In general, the school cannot be delinquent on an outstanding debt to any agency in the federal government, unless the school has made satisfactory repayment arrangements with the federal government.

Laws & Regulations

- 34 CFR 685.402(a)(2)

Laws & Regulations

- 34 CFR 668.15
- 34 CFR 688, Subpart L

Changing Origination Option Level

Although regulations allow schools to request a decrease in origination option at any time, generally, after a year in the Direct Loan Program, a school can request that ED increase or decrease its origination option. It's best to switch plans at the beginning of an award year because switching during the award year can cause operational problems.

Laws & Regulations

- 34 CFR 685.402(b)

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To request an increase or decrease in its origination option or reduce its responsibilities, a school must send its request to ED in writing. If the school is decreasing its origination option, it should include the date it would like the change to become effective.

The school sends its request to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)

ED acknowledges the school's request in writing. If the request is approved, the acknowledgment includes the effective date for the change as well as a document called "Statement of Origination." This document lists the school's new responsibilities under its new origination level. (It is not necessary for a school to sign a new Direct Loan amendment after being assigned a new origination level.)

Decrease Option Level

An Origination Option 1 school or Origination Option 2 school can choose to participate at an option level with fewer responsibilities. A school can request a decrease in its Direct Loan responsibilities at any time.

Laws & Regulations

- 34 CFR 668.402(b)(2)(i)

Example

A school that qualifies to participate at the Origination Option 1 level might decide that its financial aid office staff isn't large enough to handle the promissory note process without creating administrative burden.

This school has the choice of becoming a Standard Origination school, which means that the LOC:

- ✓ will prepare the promissory notes,
- ✓ send the notes to the school's borrowers, and
- ✓ collect the completed and signed promissory notes directly from the borrowers.

An Origination Option 2 school can choose, for whatever reason, to operate as a Standard Origination or Origination Option 1 school.

Reduce Responsibilities

Variations within the same origination option are also possible for Origination Option 1 schools and Origination Option 2 schools. Because this allows a school to tailor Direct Loan processing to fit its specific administrative needs, the school doesn't have to move entirely from one origination level to another. In these cases, the set of Direct Loan responsibilities becomes a menu from which the school has considerable choice.

Example

An Origination Option 2 school's computer center is too busy to be timely in preparing borrowers' promissory notes. But the school doesn't want to move entirely to Origination Option 1 because it wants to keep close track of when borrowers return their promissory notes.

- ✓ The school can arrange to have the LOC prepare the promissory notes and forward the notes to the school.
- ✓ The school remains responsible for (and in control of) sending the promissory notes to borrowers, collecting the completed and signed promissory notes, and forwarding the notes to the LOC.

Origination Option 1 schools and Origination Option 2 schools can reduce their responsibilities at any time. Please note, however, that switching options during the award year can cause operational problems. It's best to switch at the beginning of an award year.

Increase Option Level

Laws & Regulations

- 34 CFR 685.402(b)

Standard Origination schools and Origination Option 1 schools may apply to participate at an origination option with more responsibility and control.

- Usually, the earliest a school can make the request is one year after participating at the ED-assigned initial origination level. ED bases its decision on the school's prior-year performance, as well as regulatory criteria.
- If ED agrees to the increased level, it assigns an effective date.

Management Considerations

Deciding Which Origination Option is Best

When a school applies to participate in the Direct Loan Program, it can tell ED which loan origination option best suits its needs. To do so, it is important that a school understands the responsibilities associated with each loan origination option and that it decide how much responsibility and control it wants over Direct Loan processing. The school then can examine its resources and capabilities to adequately assess the origination option that best suits it. Remember, however, that ED determines what a school's initial origination option will be.

When considering origination options, a school should keep in mind:

- service to students,
- organization,
- staffing levels,
- computer systems,
- resources and commitment, and
- outsourcing.

A questionnaire beginning on the next page helps a school examine each of these areas.

Direct Loan Considerations for Participation Questionnaire

Student Customer Service

What origination option would best serve the school's students?

To what extent does the school want to participate in the Direct Loan Program?

Does the school want to transition completely to the Direct Loan Program?

Does the school want to offer both Direct Loans and FFEL Program loans?

If the school decides to offer loans from both programs, how does it plan to do so?

Will students get to choose which program they want to borrow from?

Will Direct Loans be available to certain classes, such as incoming students or graduate students?

Organization

Which offices will be involved in administering the Direct Loan Program?

☐ Financial Aid Office?

☐ Business Office?

☐ Registrar's Office?

☐ Computer Center?

☐ Other?

How will the responsibilities be divided among the offices?

Staffing

Are the staffing levels of the offices involved sufficient to provide such service?

continued...

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Direct Loan Considerations for Participation Questionnaire (cont'd)

Staffing (cont'd)

For which origination option is staffing sufficient?

☐ Standard Origination?

☐ Origination Option 1?

☐ Origination Option 2?

Computer Systems

Does the school meet ED's electronic capability requirements?

Will the school dedicate computer time and personnel to implement and maintain the Direct Loan Program?

What computer environment should the school choose to administer the Direct Loan Program?

☐ A PC environment using EDExpress software or vendor software?

☐ Custom mainframe environment?

☐ Combination of mainframe and PC?

How will the school network its computers so that:

the school can easily import and export Direct Loan data to and from ED?

the offices administering the Direct Loan Program have ready and appropriate access to information?

Resources and Commitment

If the staffing is not adequate for the desired origination option, does the school have the resources and the commitment to increase staff size?

If computer systems and support are not adequate, does the school have the resources and commitment to enhance its computer systems and provide support?

Outsourcing

Should the school consider contracting with a third-party servicer?

Software Implementation Options

ED designed flexibility into the Direct Loan Program's electronic processes. As a result, a school can set up its database and systems to best suit its individual operational environment. Specifically, a school can choose from among the following software implementation options.

- ED's free PC-based EDExpress software,
- school-developed software using ED's specifications,
- commercial software package with a Direct Loan module,
- EDExpress in combination with the school's software, or
- consortium-selected software.

Take a Look

See Appendix A for customer service contact information.

100 Percent Participation vs. Partial Participation

In addition to considering origination options, a school needs to determine if it wants to participate fully in the Direct Loan Program. In other words, should all students receive Direct Loans? Or should some of the school's students receive Direct Loans and some receive Federal Family Education Loan (FFEL) Program loans? Keep in mind that a student cannot receive both types of loans for the same loan period, but a school can participate in both programs.

Example

Unlimited Heights University has decided to phase in the Direct Loan Program. As a result, in its first year of participation, only freshmen and graduate students will borrow Direct Loans. In the second year, freshmen, sophomores, and graduate students will borrow Direct Loans. The phase in will continue until Unlimited Heights reaches 100 percent participation in the Direct Loan Program.

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Training

Direct Loan Program training sessions give schools a chance to learn, ask questions, and make decisions about participating in the program. They also offer opportunities for Direct Loan school staff members to meet with each other and discuss program operations.

ED offers workshops each year throughout the country, such as two-day workshops on how to use EDExpress. EDExpress is ED's free PC software application that helps schools manage the Direct Loan Program, as well as other Title IV programs. Other national training opportunities include one-day Direct Loan Overview workshops and one-day Direct Loan Reconciliation workshops. In addition, ED sponsors a Direct Loan conference each spring.

A school's CAM can provide detailed information on upcoming Direct Loan training and can provide tailored training to meet an individual school's needs. Training opportunities also can be found on ED's Information for Financial Aid Professionals (IFAP) Web site.

Web Site

- http://ifap.ed.gov

Quality Assurance System

Laws & Regulations

- 34 CFR 685.300(b)(9)

By signing the Direct Loan amendment, a participating school is required to have a quality assurance (QA) system for its Direct Loan Program operations. Each school decides for itself how it ensures data accuracy, internal consistency, timeliness, and effective management procedures. Approaches vary from school to school, depending on the size of the student body, staffing, and degree of automation.

ED does not have specific QA requirements that schools must follow. Each Direct Loan school, however, must:

- establish its own QA system and
- document its QA activities in a central master file at the school.

Web Site

- http://www.ed.gov/DirectLoan

To assist schools with this requirement, ED has published the *Direct Loan Quality Assurance Planning Guide,* which is available at ED's Direct Loan Web site. It is an *optional* technical assistance document that presents a five-step QA model plus management assessment worksheets.

Take a Look

See Appendix D for a copy of the *Direct Loan Quality Assurance Planning Guide.*

A QA system helps create a smooth transition to the Direct Loan Program, ensures program integrity and effective stewardship, and maximizes service to students. The reason: QA approaches are designed to anticipate problems that might occur and to identify actual problems early. As a result, a quality assurance system can reduce the number and severity of problems that might occur as a school implements the Direct Loan Program. This gives a school a framework for developing Direct Loan procedures that are tailored to its resources, organizational structure, and students' needs.

Quality assurance has the concept of continuous improvement as its basis. It uses the following five steps, which are progressive and interrelated:

- strategic planning,
- employee involvement,
- structured problem solving,
- performance measures, and
- corrective action.

Whether a school's QA system is automated or depends on less high-tech methods is not as important as making sure it works. A crucial strategy for maintaining consistent data campus-wide is to create ongoing cooperation and coordination among the offices involved in administering the Direct Loan Program.

With a QA system, offices and staff members get together to:

- identify tasks,
- create procedures,
- assign responsibility,
- monitor the process, and
- make changes accordingly.

As noted earlier, a school may create its own quality assurance system. Or it may meet the QA system requirement by using one of these options:

- participating in ED's Quality Assurance Program (QAP),
- completing the Direct Loan management assessment in the appendix of the *Direct Loan Quality Assurance Planning Guide* and taking corrective actions (as needed),
- completing the Title-IV-wide management assessment in the *Direct Loan Quality Assurance Planning Guide* and taking corrective actions (as needed),
- running the measurement tools function in EDExpress software and assessing the results to take corrective actions (as needed),
- using the *Self-Assessment Guide* produced by the National Association of Student Financial Aid Administrators (NASFAA), or
- using any comparable quality assurance methodology or analysis.

Ordering Publications and Supplies

Take a Look

See Appendix A for a list of available Direct Loan publications.

Schools can order free Direct Loan Program publications and supplies (including loan counseling materials, booklets, brochures, and promissory notes) from the LOC. They can be ordered by:

phone: 1-800-848-0978;

fax: 1-800-557-7398;

email: loan_origination@mail.eds.com; or

mail: U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, AL 36103-5692

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Consortia

Schools may participate in the Direct Loan Program through a consortium arrangement.

A consortium is a group in which each school may perform certain school-based loan origination functions, but only one school communicates with ED for all schools in the group.

Each school in the consortium must be eligible to participate in the Direct Loan Program, must sign an individual Direct Loan amendment, and must meet the criteria to originate loans at the chosen level of participation. Each school must participate at the same origination level, and each is responsible for the information it supplies through the consortium's lead school.

A consortium arrangement can reduce individual efforts by each school and conserve resources.

Laws & Regulations

- 34 CFR 685.102(b)
- 34 CFR 685.402(d)

Example

A group of small schools with similar missions and populations operate financial aid programs manually. After forming a consortium, they develop one of the schools as a "site" or "destination" for all computer activity associated with the Direct Loan Program.

Third-Party Servicers

Schools may use third-party servicers to help operate the Direct Loan Program. All requirements in General Provisions regulations on contracting with third-party servicers apply.

- A school must notify ED if it significantly modifies a contact with an existing third-party servicer or enters into a new contract with a third-party servicer.

Laws & Regulations

- 34 CFR 668.25

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- The notification must be within ten days of the change or action.
- On school letterhead, the school should give the name and address of the servicer and state the change or action. Notification should be sent to:

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

Withdrawing from the Direct Loan Program

Laws & Regulations

- 34 CFR 685.307

A school may withdraw from the Direct Loan Program at any time. And ED may initiate a school's withdrawal from the Direct Loan Program if there are performance or eligibility problems.

If a school decides to withdraw from the program, it sends a letter to ED on official school letterhead that:

- states it wants to withdraw from the program,
- requests a specific date it would like the withdrawal to become effective, and
- if it wishes, gives the reason(s) the school wants to withdraw from the program.

The school sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

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If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)

To allow time to reconcile cash, the school must give ED 60 days notice that it intends to withdraw from the Direct Loan Program.

To complete the withdrawal process, the school must conduct closeout audits (Title IV audits) and a final reconciliation of Direct Loan funds. Final reconciliation includes submitting all disbursement records and returning excess cash.

Direct Loans

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THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Chapter 5: Establishing Borrower Eligibility for Direct Loans

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Establishing Borrower Eligibility for Direct Loans

Chapter 5

The purpose of this chapter is to describe the eligibility requirements for Direct Loan borrowers. These requirements are in the Higher Education Act of 1965, as amended (HEA), and in Title IV regulations. The requirements for student borrowers and parent borrowers differ.

Take a Look

School eligibility is discussed in Chapter 4.

Laws & Regulations

- HEA, Title IV, Parts D, F, and G
- 34 CFR 668, Subpart C
- 34 CFR 685, Subpart B

Student Borrower Eligibility

Direct Subsidized Loans and Direct Unsubsidized Loans are for undergraduate students and graduate and professional students who meet:

✦ general Title IV student eligibility requirements and

✦ specific Direct Loan student eligibility requirements.

Schools are responsible for assuring that students who receive Direct Loans meet these requirements. This section briefly highlights several of the general requirements and then focuses on requirements that are specific to the Direct Loan Program.

Title IV Student Eligibility Requirements

To receive any Title IV aid, including Direct Loans, students must meet general regulatory requirements. These requirements address issues such as citizenship status, valid Social Security number (SSN), satisfactory academic progress, selective service registration, and certifications. The student eligibility section of ED's *Student Financial Aid (SFA) Handbook* offers extensive information about general Title IV eligibility requirements.

Reference

- *SFA Handbook: Student Eligibility*

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Schools must be knowledgeable about these requirements so that ineligible students do not receive Direct Loans. Although this guide does not repeat the detailed information in the *SFA Handbook*, three features—the Free Application for Federal Student Aid (FAFSA), dependency status, and financial need—are presented here because they are basic elements that schools use to determine student eligibility for Direct Loans.

Free Application for Federal Student Aid (FAFSA)

Take a Look

See Chapter 6 for details about loan origination records.

To be considered for a Direct Subsidized Loan or a Direct Unsubsidized Loan, a student must submit a Free Application for Federal Student Aid (FAFSA). The information on the FAFSA allows a school to determine a student's dependency status and financial need. It also provides the school with data to create a loan origination record.

Dependency Status

Laws & Regulations

- 34 CFR §668.2(b)

A first step in determining how much a student may borrow—and what kinds and amounts of Direct Loans a student qualifies for—is to determine whether the student is an "independent student" or a "dependent student."

By law, a student is dependent if he or she can answer "No" to all of the following questions:

1. Will you be at least 24 years old by December 31 of the award year?
2. Are you married?
3. Are you a graduate student or a professional student?
4. Are you a veteran of the U.S. Armed Forces?
5. Are you an orphan or a ward of the court or were you a ward of the court until age 18?
6. Do you have legal dependents other than a spouse?

If a student can answer "No" to all of these questions, he or she is a dependent student and is eligible to apply for a Direct Subsidized Loan and a Direct Unsubsidized Loan.

✦ The parent of a dependent student also is eligible to apply for a Direct PLUS Loan for the student.

If a student answers "Yes" to just one of these questions, he or she is not a dependent student and is classified as an independent student. An independent student is eligible to apply for a Direct Subsidized Loan and a Direct Unsubsidized Loan and has higher unsubsidized loan limits than a dependent student.

- The parent of an independent student cannot borrow a Direct PLUS Loan for the student.

Financial Need

Eligibility for a Direct Subsidized Loan requires that a student demonstrate financial need according to the need analysis formula in the HEA. Financial need is not, however, an eligibility criterion for Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans.

Laws & Regulations

- HEA, Title IV, Part F

Direct Loan Student Eligibility Requirements

In addition to general Title IV student eligibility requirements, the Direct Loan Program has other eligibility criteria, concerning:

- enrollment status,
- Federal Pell Grant eligibility,
- previously canceled loans, and
- bankruptcy.

Enrollment Status

To obtain a Direct Subsidized Loan or Direct Unsubsidized Loan, a student must be:

- enrolled at least half-time as a regular student,
- in an eligible program, and
- at a school that participates in the Direct Loan Program.

Laws & Regulations

- 34 CFR 685.200(a)

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One exception to this requirement is for students enrolled in a course of study required to enroll in an eligible program. However, receiving federal financial aid while enrolled in a preparatory program is limited to 12 months—specifically, one consecutive 12-month period.

Students are *not* eligible for Direct Loans if they are also enrolled in an elementary school, middle school, or secondary school. Nor are students eligible if they are incarcerated. Although a postsecondary school may participate simultaneously in both the Direct Loan Program and the FFEL Program, a student may not borrow from both programs to attend the same school for the same loan period.

Federal Pell Grant Eligibility

Laws & Regulations

- 34 CFR 685.200(a)

When a student applies for a Direct Subsidized Loan or a Direct Unsubsidized Loan, a school must determine if the student is eligible or ineligible for a Federal Pell Grant (gift aid). The school must then include the amount of an eligible student's Federal Pell Grant as part of his or her estimated financial assistance when calculating how much the student can borrow from the Direct Loan Program. (This Pell-eligibility check is not conducted when parents apply for Direct PLUS Loans.)

Direct Subsidized Loan Eligibility

Laws & Regulations

- 34 CFR 685.301(a)(6)

A school awarding Direct Loan funds to a student must also determine the student's eligibility for a Direct Subsidized Loan. Unless the borrower's eligibility is $200 or less, he or she must be awarded a Direct Subsidized Loan—which does not accrue interest while the student is in school and during the grace period—before being awarded a Direct Unsubsidized Loan—which accrues over the entire life of the loan. (This Direct-Subsidized-Loan-eligibility check is not conducted when parents apply for Direct PLUS Loans.)

Previously Discharged Loans

Laws & Regulations

- 34 CFR 685.200(a)

A student whose previous federal education loan was discharged due to total and permanent disability may reestablish eligibility by:

- obtaining a certification from a physician that the borrower can engage in substantial gainful activity; and

- signing a statement acknowledging that the Direct Loan the borrower receives cannot be discharged in the future on the basis of any impairment present when the new loan is made, unless the impairment substantially deteriorates.

Default, Excess Borrowing, and Overpayment

Borrowers are not eligible for federal student financial aid funds if they:

- are in default on a federal student loan,
- have inadvertently obtained federal student loan funds in excess of annual or aggregate loan limits, or
- have an unresolved overpayment from Title IV funds.

Laws & Regulations

- 34 CFR 668.32(g)
- 34 CFR 668.35

The *SFA Handbook* discusses in detail default, borrowing in excess of loan limits, and overpayment. It also explains what students can do to regain eligibility for Title IV aid, including Direct Loan Program funds.

Reference

- *SFA Handbook: Student Eligibility*

Bankruptcy

Borrowers who have declared bankruptcy do not have to reaffirm their discharged federal student loan or overpayment obligations to be eligible for federal Title IV student aid funds, including Direct Loans. The Bankruptcy Reform Act of 1994 prohibits denial of aid solely on the basis of a bankruptcy discharge.

Laws & Regulations

- The Bankruptcy Reform Act of 1994
- 34 CFR 668.35(f)

The September 1995 "Dear Colleague" Letter, GEN-95-40, provides guidance for schools on this issue. It notes that a federal student loan or federal grant overpayment isn't dischargeable in bankruptcy unless:

- such a debt has been outstanding for at least seven years, excluding any periods of deferment or forbearance ("suspended repayment"); or
- the bankruptcy court has determined that repaying this debt would cause an undue hardship to the debtor and his or her dependents.

Reference

- "Dear Colleague" Letter, GEN-95-40.

Laws & Regulations

- 34 CFR 668.35

A borrower applying for Title IV aid who has a defaulted federal student loan or grant overpayment that is not dischargeable in his or her bankruptcy schedules will be considered ineligible for further federal student aid until the default or overpayment status is resolved. For example, a borrower can regain eligibility by establishing a satisfactory repayment arrangement with the holder of the debt and by making at least six consecutive monthly payments under these arrangements.

If a default or overpayment occurred before the borrower filed for bankruptcy and debts were discharged in bankruptcy, the applicant is eligible for further federal student aid and does not have to establish satisfactory repayment arrangements. The reason: Legally, the debt no longer exists.

Borrowing Additional Direct Unsubsidized Loan Amounts

Take a Look

See Chapter 2 for annual and aggregate Direct Loan limits.

Laws & Regulations

- 34 CFR 685.203(c)

In certain circumstances, a dependent student can borrow additional Direct Unsubsidized Loan funds up to the loan limits for independent students. This is the case if:

- the parent is turned down for a Direct PLUS Loan because of adverse credit or
- the school determines that the parent will be unlikely to obtain a Direct PLUS Loan or FFEL Program Federal PLUS Loan due to exceptional circumstances, *and* the student's family is otherwise unable to provide the student's Expected Family Contribution (EFC).

Exceptional circumstances include, but are not limited to:

- the parent has an adverse credit history,
- the parent receives only public assistance or disability benefits (this must be documented in the student's file),
- the parent is incarcerated (this must be documented in the student's file), or
- the parent's whereabouts are unknown (this must be documented in the student's file).

Parent Borrower Eligibility

Take a Look

See page 5-2 for dependent student and independent student definitions.

A parent may borrow Direct PLUS Loans to help pay for the postsecondary education of his or her children who are dependent students.

- However, a parent may not borrow Direct PLUS Loans for children who are independent students.
- A parent also may not borrow both a Direct PLUS Loan and a Federal Family Education Loan (FFEL) PLUS Loan for the same child for the same loan period.

Laws & Regulations

- 34 CFR 685.200(b)

To be an eligible parent borrower for a Direct PLUS Loan, a parent must:

- be the natural mother or father or adoptive parent of the student for whom the Direct PLUS Loan is being borrowed,
    - A stepparent also is eligible if his/her income and assets were used or would have been taken into account when calculating a dependent student's EFC.
- be a U.S. citizen, U.S. national, or permanent resident of the United States;
- provide the parent's and student's Social Security numbers (SSNs);
- not be in default on a federal education loan or owe an overpayment on federal education funds;
- be requesting the loan for the educational costs of a child who is an eligible dependent student enrolled in a postsecondary school; and
- not have an adverse credit history.

To apply for a Direct PLUS Loan, a parent fills out an application/ promissory note.

- Only one parent needs to sign the Direct PLUS Loan application/promissory note.
- A parent does not have to fill out the Free Application for Federal Student Aid (FAFSA) to receive a Direct PLUS Loan.

Checking Credit History

Because Direct PLUS Loans are not available to parents with an adverse credit history, an applicant's credit history is checked.

The U.S. Department of Education's (ED's) Loan Origination Center (LOC) checks credit history with a national credit bureau each time a parent applies for a Direct PLUS Loan.

- A parent who doesn't have a credit history is not considered to have an adverse credit history.
- A parent has an adverse credit history if the credit report shows that the parent:
  - currently is 90 days or more late in paying any debt (for example credit cards or loans) or
  - within five years of the date of the credit report,
    - has been determined to be in default on a debt;
    - has had debts discharged in bankruptcy; or
    - has been the subject of :
      - foreclosure,
      - repossession,
      - tax lien,
      - wage garnishment, or
      - write-off of a federal education debt.

Within five business days of receiving a Direct PLUS Loan application, the Loan Origination Center (LOC) notifies the school of the applicant's credit evaluation. This is done through decision codes on the Direct PLUS Loan origination record. The LOC also notifies the parent of the results of the credit check.

The school then continues processing loans for applicants who meet the credit criteria and stops processing loans for applicants who do not meet the criteria.

Take a Look

See page 5-10 for details about school policies for canceling or bypassing Direct PLUS Loan applications for parents with adverse credit.

Effect of Adverse Credit History on the Parent

When a parent doesn't pass the credit check, the LOC sends a letter notifying the parent that he or she is not eligible for a Direct PLUS Loan because of adverse credit history. The letter tells the parent which national credit bureau reported the adverse information, explains why the parent was rejected, and offers the applicant several options:

- The parent can opt to take no further application actions (in other words, stop the Direct PLUS Loan application process).
- If the parent believes the credit bureau provided inaccurate credit information, he or she can contact the reporting credit bureau to resolve the issue.
- If the parent believes the adverse credit history is correct but that there are extenuating circumstances, he or she may appeal to the LOC and document the extenuating circumstance(s).
- Or the parent can obtain an endorser who does not have an adverse credit history and submit a revised Direct PLUS Loan application/promissory note. The endorser (who cannot be the dependent student for whom the parent is trying to borrow) must agree to repay the loan if the parent doesn't. (An endorser form is included in the rejection letter.)

☎ Where to Call

Parents call the LOC at 1-800-557-7394 to appeal an adverse credit decision.

The letter the LOC sends encourages the parent to tell the financial aid administrator at the student's school which of the outlined options the parent plans to take. The reason: If the parent decides not to pursue a Direct PLUS Loan further, the student becomes eligible for an additional Direct Unsubsidized Loan amount. The sooner the school knows the parent is stopping the loan-application process, the sooner it can begin helping the student get additional loan funds.

Only one parent needs to apply for a Direct PLUS Loan. If one parent is turned down because of adverse credit, the other parent does not need to apply before the student is eligible for an additional loan amount.

Effect of Parent's Adverse Credit History on the Student

If a parent is not eligible for a Direct PLUS Loan because of adverse credit history, the dependent student for whom the parent wished to borrow is allowed to borrow additional money from the Direct Loan Program. The student becomes eligible for an additional Direct Unsubsidized Loan amount, up to the loan limits for an independent student.

Take a Look

See page 5-6 for details about students who can borrow additional Direct Unsubsidized Loan amounts.

School Policy Options for Handling Parents with Adverse Credit Histories

When a parent applicant doesn't meet Direct PLUS Loan credit criteria, a school must stop all loan processing on the application.

Because of the various appeal options a rejected parent applicant has, the school might want to establish a policy defining how long it will wait for the results of a parent's appeal(s) before it begins processing an additional Direct Unsubsidized Loan for the dependent student.

An effective school policy would have procedures for:

- determining whether a rejected parent applicant is challenging credit bureau records, appealing on the basis of extenuating circumstances, seeking an endorser, or no longer wishes to pursue a Direct PLUS Loan;
- communicating to a rejected parent applicant that if he or she is not eligible to borrow a Direct PLUS Loan because of an adverse credit history, then the student is eligible to borrow additional funds in a Direct Unsubsidized Loan;
- creating a process for officially adjusting a Direct PLUS Loan application (if the parent decides not to pursue the loan) so that the school can begin processing a Direct Unsubsidized Loan for the student; and
- determining early on when a parent probably will be unable to borrow a Direct PLUS Loan due to exceptional circumstances, *and* the student's family is otherwise unable to provide the student's Expected Family Contribution (EFC).
    - If a parent can show at the outset that he or she will be unable to meet the credit criteria (for example, show documentation of a tax lien), the parent does not need to go through the process of applying—and being rejected—for a Direct PLUS Loan.
    - Instead, a school can develop an internal process to bypass the application process and award additional Direct Unsubsidized Loan funding to the dependent student.

- The school must document in the student's file why the student's parent would have been precluded from borrowing a Direct PLUS Loan.

Student and Parent Eligibility Checklists

The checklists on the following pages provide at-a-glance lists of the Direct Loan eligibility requirements for students and parents. Schools should find these lists helpful for discussing requirements with students and parents. The checklists can also serve as a training tool for school staff members who are unfamiliar with the Direct Loan Program.

Direct Loan Student Eligibility Checklist

Eligibility Requirements	**Reference**
☐ The school determines the student's:	
☐ dependency status	34 CFR 668.2(b)
☐ financial need	HEA, Part F; 34 CFR 685.200(a)(2)
☐ Federal Pell Grant eligibility	34 CFR 685.200(a)
☐ The student meets general Title IV eligibility requirements, such as:	
☐ citizenship status	34 CFR 668.33
☐ valid Social Security number (SSN)	34 CFR 668.36
☐ satisfactory academic progress	34 CFR 668.34
☐ Selective Service registration	34 CFR 668.37
☐ certifications	34 CFR 668.32(h)
☐ The student is enrolled:	
☐ at least half time as a regular student	34 CFR 685.200(a)
☐ in an eligible program	34 CFR 685.200(a)
☐ at a school that participates in the Direct Loan Program	34 CFR 685.200(a)
☐ The student may:	
☐ not be in default on a federal education loan	34 CFR 668.32(g)
☐ not have an overpayment on Title IV student aid funds	34 CFR 668.32(g)
☐ not have borrowed in excess of annual or aggregate federal education loan limits	34 CFR 668.32(g)
☐ Students can regain eligibility for Title IV, including Direct Loans, by repaying what they owe in full or making satisfactory repayment arrangements	34 CFR 668.35
☐ If the student has a bankruptcy discharge, the student does not need to reaffirm student loans or overpayments discharged in bankruptcy	• The Bankruptcy Reform Act of 1994 • "Dear Colleague" Letter, GEN-95-40 • 34 CFR 668.35(f)
☐ If the student previously canceled federal education loans due to total and permanent disability, the student has reestablished eligibility for Direct Loans	34 CFR 685.200(a)
☐ Under certain circumstances, the student (if a dependent student) may borrow additional Direct Unsubsidized Loan amounts above dependent-student annual limits	34 CFR 685.203(c)

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Direct Loan Parent Eligibility Checklist

Eligibility Requirements	**Reference**
☐ The parent is borrowing to help pay for the postsecondary expenses of his or her child	34 CFR 685.200(b)
☐ The parent's child is a dependent student who meets Title IV student eligibility requirements	34 CFR 685.200(b)
☐ The parent must:	
☐ provide the parent's and student's Social Security numbers (SSNs)	34 CFR 685.200(b)
☐ be a U.S. citizen, U.S. national, or U.S. permanent resident	34 CFR 685.200(b)
☐ not be in default on a federal education loan or owe an overpayment on federal education funds.	34 CFR 685.200(b)
☐ not have an adverse credit history.	34 CFR 685.200(b)
☐ The parent is not borrowing from the Direct Loan Program and the Federal Family Education Loan (FFEL) Program for the same child for the same loan period	34 CFR 685.200(b)

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Direct Loans

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THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

Direct Loan Origination,
Disclosure Statements, &
Master Promissory Notes

School Guide

Chapter 6: Direct Loan Origination, Disclosure Statements, and Master Promissory Notes

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Chapter 6

Direct Loan Origination, Disclosure Statements, and Master Promissory Notes

The purpose of this chapter is to explain how Direct Loan schools and ED's Loan Origination Center (LOC) work together with borrowers (students and parents) to begin processing Direct Loans.

- ✦ The chapter begins with a brief overview that introduces the Direct Loan application process.
- ✦ It then focuses on initial, front-end processes that schools and the LOC perform to:
  - ✧ originate loans,
  - ✧ produce and distribute loan disclosure statements, and
  - ✧ print, distribute, and collect promissory notes (including master promissory notes).

The remaining front-end processes are described in Chapters 7 and 8.

- ✦ Chapter 7 addresses drawing down Direct Loan funds and disbursements.
- ✦ Chapter 8 reviews how schools make and report changes to Direct Loans.

For Your Information

"Front-end" processes refer to activities that take place *before* a loan becomes a legal and binding obligation between the borrower and the U.S. Department of Education (ED).

- These activities, which are the subject of Chapters 6, 7, and 8:
  - are handled primarily by schools and the LOC and
  - take place before a loan is "booked."
- A loan is booked when the LOC has received and accepted a borrower's:
  - loan origination record,
  - signed promissory note, and
  - disbursement record.

After a loan is booked, ED's Direct Loan Servicing Center (DLSC) handles the "back-end" processes of servicing the loan. These are discussed in Chapter 12.

Overview

Take a Look

See Chapter 2 for details about types of Direct Loans.

Processing Direct Loans begins in one of two ways, depending on the type of loan a borrower is seeking.

- ✦ For Direct Subsidized Loans and Direct Unsubsidized Loans (for students), the process begins when a student files a Free Application for Federal Student Aid (FAFSA).
- ✦ For Direct PLUS Loans (for parents), the process begins when a parent informs a school of his or her interest in obtaining a Direct PLUS Loan.
  - ✧ A parent does not complete a FAFSA to apply for a Direct PLUS Loan.

How Students Apply for Direct Loans

Take a Look

- See Chapter 3 for an overview of the CPS.

Students apply for Direct Subsidized Loans or Direct Unsubsidized Loans. Here is a brief overview of the application process.

- ✦ A student completes an electronic FAFSA (FAFSA on the Web, FAFSA Express, or EDExpress through a school) or a paper FAFSA and sends it to ED's Central Processing System (CPS).
- ✦ The CPS reviews the student's FAFSA and uses the information to calculate his or her Expected Family Contribution (EFC) to college costs.
  - ✧ The CPS combines the student's data and the EFC results, along with other student eligibility information, into an Institutional Student Information Record (ISIR) and forwards the ISIR electronically to the school(s) selected by the student.
  - ✧ The CPS sends the same information to the student as a Student Aid Report (SAR) or a SAR Information Acknowledgement.

Reference

- *A Guide to SARs and ISIRs*

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How Parents Apply for Direct Loans

To begin the application process, a parent contacts the postsecondary school that his or her child plans to attend. This part of the process varies from school to school.

- ✦ For example, a school may require a parent to complete an institutional form that collects information that the school does not have on file but that it needs to originate a Direct PLUS Loan. The form may collect information such as:
  - ✧ the parent's name,
  - ✧ Social Security number (SSN), and
  - ✧ loan amount requested.
- ✦ On the other hand, a school might not need to have a parent complete a separate school form because the school already has the necessary information on file from other sources, such as:
  - ✧ the FAFSA (because the student for whom a parent is borrowing is also applying for other Title IV federal student financial aid);
  - ✧ financial aid applications for nonfederal sources of aid, and
  - ✧ information available from the school's admissions office, business office, or registrar's office.

No matter how schools ask parents to begin the application process, any parent borrowing a Direct PLUS Loan must complete and sign a combined application/promissory note.

- ✦ Depending on the school's origination option, either the school or the LOC prints and sends the application/promissory note to the parent.
- ✦ The parent then returns the completed and signed application/promissory note to the organization that sent it (either the school or the LOC).

Take a Look

See page 6-21 for details about Direct Loan promissory notes.

Take a Look

See Chapter 4 for details about school origination options.

How Schools and the LOC Process Direct Loans

A school begins processing any Direct Loan by determining a Direct Loan applicant's (student or parent) eligibility. The school performs this function using the information described in the previous sections, that is, it uses:

- the ISIR data to determine a student's eligibility for Direct Subsidized Loans and Direct Unsubsidized Loans and
- the information collected by the school from a Direct PLUS Loan application/promissory note and other sources to determine a parent's eligibility for Direct PLUS Loans.

Take a Look

- See page 6-7 for details about loan origination records.
- See page 6-15 for details about loan origination record acknowledgments and rejections.
- See page 6-18 for details about disclosure statements.
- See page 6-21 for details about master promissory notes and application/promissory notes.

At this point, school processing is the same for Direct Loans for students (Direct Subsidized Loans and Direct Unsubsidized Loans) and Direct Loans for parents (Direct PLUS Loans).

- The school creates a loan origination record and sends it to the LOC.
- When the LOC receives the loan origination record from the school, it takes the following actions.
    - If the LOC accepts the record, which means that it has all the information needed to originate the borrower's Direct Loan, the LOC sends a loan origination record acknowledgment to the school.
    - If there is a problem with the loan origination record—for example, information is missing, inconsistent, or incorrect—the LOC rejects the loan origination record and sends the school a loan origination acknowledgment with reject codes that describe the type of error(s) so the school knows what needs to be corrected.
- For 1999-2000 loans, when the loan origination record is accepted, the LOC (or in some instances the school) will send a disclosure statement to the student borrower for a Direct Subsidized Loan and Direct Unsubsidized Loan.
    - Starting in February 2000, the disclosure statement will be sent to the student borrower ten calendar days before the first anticipated disbursement date reported on the loan origination record.

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  - A parent borrower does not receive a disclosure statement for a Direct PLUS Loan.
  - For a Direct PLUS Loan, the LOC conducts a credit check on the parent after it receives and accepts the loan origination record. The purpose of the credit check is to be sure that the parent does not have an adverse credit history.
    - In general, a parent with an adverse credit history is not eligible for a Direct PLUS Loan. However, under certain circumstances, it might be possible for the parent to receive the loan. (Chapter 5 discusses adverse credit history and the effect it can have on a parent's eligibility to borrow a Direct PLUS Loan.)
- The school (or the LOC—depending on a school's origination status) prints a master promissory note (if the borrower is a student) or an application/promissory note (if the borrower is a parent and the school has not already had the parent complete and sign it at the beginning of the process) and sends it to the borrower.
- The borrower completes and signs the master promissory note or application/promissory note and returns it to the school or the LOC, depending on which organization sent the promissory note.
  - If a borrower returns a master promissory note or application/promissory note to the school, the school must forward it to the LOC.
- When the LOC receives and accepts a completed and signed master promissory note or application/promissory note, it sends a promissory note acknowledgment to the school.
  - If there is a problem with the master promissory note or application/promissory note—for example, information is missing (such as the borrower's signature) or incorrect (such as a wrong Social Security number)—the LOC will send it back to the borrower or the school, depending on the origination level of the school.
    - If the LOC returns the master promissory note or application/promissory note, the school contacts the borrower directly to fix the problem.

Take a Look

See page 6-49 for details about promissory note acknowledgments.

Loan Origination

Schools work directly with the LOC to originate Direct Loans. The process is entirely electronic and consists primarily of exchanging borrower data.

School Activities

Laws & Regulations

- 34 CFR 685.301(a)

All Direct Loan schools are responsible for originating loans. The Direct Loan origination process is similar to the loan certification process in the FFEL Program. In both cases, schools collect and provide data that show that borrowers are eligible to receive loans.

Laws & Regulations

- 34 CFR 685.301(a)(1)

Schools may not originate Direct Loans for borrowers who do not meet all the eligibility requirements. For example, a school may not originate a Direct Loan that is:

- greater than a borrower's need or
- in excess of annual loan limits and aggregate loan limits.

Take a Look

See Chapter 5 for details about borrower eligibility.

A school must check a borrower's eligibility at the time it originates a Direct Loan. Chapter 5 addresses borrower eligibility requirements in more detail.

Refusing to Originate a Direct Loan

Laws & Regulations

- 34 CFR 685.301(a)(7)

A school may refuse to originate a Direct Loan if it:

- makes the decision on a case-by-case basis;
- does not engage in any pattern or practice that denies a borrower's access to Direct Loans because of his or her race, gender, color, religion, national origin, age, disability status, or income;
- documents the reason for the decision;
- notifies the borrower (student or parent) in writing of the decision; and
- retains the documentation in the student's file.

A school also has the authority to originate an amount that is less than the borrower's calculated need. However, the school must follow the same requirements outlined for refusing to originate a Direct Loan.

Originating Direct Subsidized Loans for $200 or Less

If a student is eligible for only a $200 Direct Subsidized Loan or less, a school can choose not to originate the loan for that student. However, the school must include what would have been the Direct Subsidized Loan amount as part of his or her Direct Unsubsidized Loan.

Laws & Regulations

- 34 CFR 685.301(a)(6)

Information Required to Originate a Direct Loan

Direct Loan regulations specify the information needed to originate a Direct Loan. At a minimum, schools must include and send to ED:

- borrower eligibility,
- loan amount,
- anticipated and actual disbursement dates, and
- disbursement amounts.

Schools send this information to the LOC. In addition, schools must store all loan data, including loan origination data, in their own data systems.

Laws & Regulations

- 34 CFR 685.301(a)(2)

Take a Look

See Chapter 7 for details about disbursements.

Creating Loan Origination Records

Schools originate Direct Loans by creating electronic loan origination records. A loan origination record becomes part of a borrower's permanent loan record in ED's Direct Loan database. It is the foundation for any Direct Loan because without it no other processing can take place. The reason for this is that an LOC-accepted loan origination record is the first of three components needed to "book" a loan.

- The other two components for booking a Direct Loan are having an LOC-accepted promissory note and disbursement record.

For Your Information

When a loan is booked, an official and legally binding obligation exists between the borrower and ED.

Take a Look

- See page 6-21 for details about promissory notes.
- See Chapter 7 for details about disbursement records.

Origination is complete when the loan origination record:

- is complete and accurate,
- has been forwarded to and accepted by the LOC, and
- has identified both a loan amount and an anticipated disbursement date.

Schools send completed (also known as "full") loan origination records to the LOC. The loan origination record has fields for all the information required by Direct Loan regulations. It also collects other information, such as the date the loan-counseling entrance interview takes place and academic year start and end dates. These data help schools and ED properly manage the Direct Loan Program.

The information schools provide on a loan origination record falls into the following categories:

- demographic information, such as the borrower's name, home address, Social Security number, date of birth, and citizenship status;
- financial information, such as the loan amount requested and the loan amount approved; and
- statistical information, such as the student's year in school.

In general, the school gets this information from three main sources:

- the student's FAFSA, which the school receives as an ISIR from the CPS;
- the school's internal records, which include data collected by the school itself from students and parents; and
- data generated by the Direct Loan systems.

The chart on the next page lists the specific data items collected in a loan origination record. It shows which items the school must include for the LOC to accept the record. It also shows the sources for the items.

For Your Information

The chart on page 6-9 is designed for schools that manage the Direct Loan Program using PCs with ED's free EDExpress software or a combination of PCs and mainframes.

Schools that use mainframe computers exclusively (referred to as "custom schools") may want to design their own chart because EDExpress is a software application for PCs and does not run on mainframe computer systems.

Direct Loan Origination Record Data Items

	Borrower/Student Data Items	General Loan Record Data Items
F	• Borrower's Social Security number* • Borrower's name* • Borrower's address* • Borrower's home phone number • Borrower's driver's license number and state • Borrower's date of birth* • Borrower's citizenship status (including alien registration number if eligible noncitizen)* • Borrower's Selective Service registration (if male) • Student's year in school*	
I	• Record of defaults on education loan or owed repayment on grant* • Student's anticipated completion date • Loan entrance interview	• Loan type (Direct Subsidized, Direct Unsubsidized, Direct PLUS)* • Loan amount requested (cannot be more than loan eligibility)* • Loan amount approved* • User who created record*
G		• School code number* • Loan period start date* • Loan period end date* • Academic year start date • Academic year end date • Up to four anticipated disbursement dates**
S		• Loan identifier* • Loan year* • Loan sequence number* • Origination record transmit date • Anticipated loan fees • Anticipated gross loan amount • Anticipated net loan amount • Loan origination status • Origination date • Date/time record created • Servicer code • Last update date/time

Key to Direct Loan Origination Record Data Items Chart

F	Data from FAFSA
I	Data from school (may require manual entry)
G	Global parameters; data are universally set by Direct Loan system setups and parameters
S	System-generated; the Direct Loan software calculates the data items
*	Required for transmitting loan origination record to the Loan Origination Center
**	As of February 2000, the number of anticipated disbursement dates will increase

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Systems Options for Creating Direct Loan Origination Records (and Other Direct Loan Records)

As previously stated, the Direct Loan Program requires that schools create loan origination records electronically. However, schools have considerable latitude in how they perform Direct Loan functions, including creating loan origination records and other Direct Loan records, which are discussed in subsequent chapters.

- An introduction to school systems options begins below.
- ED's *Direct Loan Technical Reference* provides detailed information on these systems options and how schools can implement them.
  - The reference is available on ED's Information for Financial Aid Professionals (IFAP) and Direct Loan Web sites.

Reference

- *Direct Loan Technical Reference*

Web site

- http://ifap.ed.gov
- http://www.ed.gov/DirectLoan

PC Schools

Schools that operate in PC environments (whether stand-alone PCs or networked PCs) can take advantage of free, ED-provided software, called EDExpress, that works on stand-alone PCs and networked PCs. Schools also may use software other than EDExpress to process Direct Loans.

EDExpress is a comprehensive Title IV financial aid management system for schools. It is a student-based system that allows schools to perform such functions as loading and printing ISIRs, computing student award packages, maintaining fund records, tracking file documents, and generating reports. For the Direct Loan Program, PC schools can use EDExpress to:

- create loan origination records,
- print promissory notes,
- manage disbursement data,
- reconcile funds, and
- import and export records to the LOC and ED data systems, such as the Central Processing System (CPS), National Student Loan Data System (NSLDS), and Grant Administration and Payment System (GAPS).

Take a Look

See Chapter 3 for overviews of ED's data systems, including the LOC, CPS, NSLDS, and GAPS.

EDExpress can also capture data from other on-campus systems. As a result, schools can use EDExpress to export and import student data to and from the registrar's office, business office, and admissions office databases. This helps schools with loan origination and other functions, such as drawdowns and disbursements (which are discussed in Chapter 7).

Take a Look

See Chapter 7 for details about drawdowns and disbursement.

Mainframe Schools (also called "Custom Schools")

Many schools rely solely on mainframe computers to administer federal financial aid and related functions, such as admissions, registrar's office, student accounts, and so forth. These schools are often called "custom schools."

EDExpress does not work on mainframe computers because it is PC-based software. However, ED provides mainframe specifications and record layouts in its *Direct Loan Technical Reference*, so schools (or their software vendors) can develop their own Direct Loan software for creating loan origination records and performing other Direct Loan (and other Title IV student aid) functions. Schools can also print the record layouts from IFAP.

Reference

- *Direct Loan Technical Reference*

Combination Schools

A number of Direct Loan schools use a combination of PCs and mainframe computers to administer the Direct Loan Program. These schools are called "combination schools " or "combo schools." They use EDExpress or other PC-based software for the functions performed by their PCs and customized software created from ED specifications in the *Direct Loan Technical Reference* for the functions performed by their mainframe computers.

Example

Medium-Size University participates in the Direct Loan Program as a combination school.

- ✓ It relies on its mainframe computer to perform most Direct Loan functions, such as creating loan origination records.
- ✓ However, it uses EDExpress and a PC to import and export records through TIV WAN to the LOC.

Deciding Which Systems Option is Best

Here are a few questions that should help schools decide which systems option is best for them.

- ✦ How large does the school estimate its Direct Loan volume will be?
  - ✧ Schools with very large loan volumes should consider not relying entirely on PCs and EDExpress because processing records can take longer when using PCs.
- ✦ How easily can existing school systems be integrated into a Direct Loan system?
- ✦ What resources are available to implement the Direct Loan Program?
  - ✧ In answering this question, schools should look at available data processing staff as well as staff from other school offices (financial aid office, business office, registrar's office), equipment, and administrative funds.
- ✦ How much time is available to implement each systems option (PC, mainframe, PC/mainframe combination)?
- ✦ Are communications effective between offices that will be involved in administering the Direct Loan Program?
  - ✧ The offices will probably include the financial aid office, business office, registrar's office, and computer center.

Schools that Use Third-Party Servicers

Laws & Regulations

- 34 CFR 668.25

Some schools hire third-party servicers to handle loan origination and other Direct Loan functions. These servicers must have appropriate software and hardware to manage the process. They must also have adequate staffing and quality control procedures to assure that they administer the Direct Loan Program in compliance with federal requirements.

- ✦ This is important because, according to the General Provisions regulations—which apply to all Title IV student aid programs, including the Direct Loan Program—the school and its servicer are jointly and severally liable if the servicer does not comply with federal regulations.

Establishing Official Loan Origination Dates

The date a Direct Loan is officially originated is the date the school creates the loan origination record.

- Loan origination records must be created and transmitted while the students for whom they are intended are eligible to receive federal aid.
- Schools must submit the loan origination record, promissory note, and disbursement records to ED within 30 days following the date the first disbursement is made.

Creating a Direct Loan's Identification Number

A Direct Loan identification (ID) number is established automatically when a school creates a loan origination record.

- For student subsidized and unsubsidized loans, the loan ID number of the first loan that is originated for the student appears in Section B, Item 11, of the master promissory note.
  - For example, a school originates a Direct Subsidized Loan and a Direct Unsubsidized Loan for a student. The school exports the loan origination record for the subsidized loan to the LOC. It holds on to the unsubsidized loan's origination record (it's waiting to hear if the student receives a scholarship from a community group). The loan origination record for the subsidized loan is accepted by the LOC. The ID number on the master promissory note will be the same as the subsidized loan ID number because it was the first of the two loans to be accepted.
- For a parent Direct PLUS Loan, the loan ID number appears at the bottom of the loan origination record and at the top of the promissory note (Section A, Item 1).

ED's *Direct Loan Technical Reference* provides additional information on Direct Loan ID numbers.

The loan ID number is taken from the following elements on the loan origination record:

- borrower's Social Security number (SSN),

Laws & Regulations

- 34 CFR 685.301(a)(5)

For Your Information

The LOC sends a 30-day warning report to any school that has processed Direct Loans that the LOC cannot book.

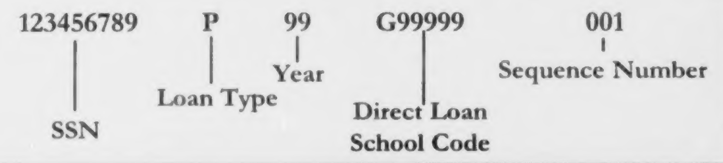
- As already noted, to book a Direct Loan, the LOC must receive and accept:
  - a loan origination record,
  - a completed and signed promissory note, and
  - a disbursement record.
- The LOC produces 30-day warning reports on a weekly basis. The reports list the unbooked Direct Loans at a school and indicates the data required to book each loan.

Reference

- *Direct Loan Technical Reference*

- loan type ("S" for Direct Subsidized Loans, "U" for Direct Unsubsidized Loans, and "P" for Direct PLUS Loans),
    - After February 2000, "S" (for subsidized) and "U" (for unsubsidized) will not appear in master promissory notes for new loans. Instead, an "M" will be used in the master promissory note ID number for both Direct Subsidized Loans and Direct Unsubsidized Loans.
- loan year,
- school code, and
- loan sequence number.

Example of a Direct Loan ID Number



Transmitting Direct Loan Origination Records

Once a school completes a borrower's loan origination record, the school transmits it to the LOC.

- If the school is a Standard Origination school or an Origination Option 1 school, the LOC must accept the loan origination record and promissory note before the LOC will request funds from ED for that loan and the school is allowed to make a Direct Loan disbursement to the borrower.
- An Origination Option 2 school is allowed to draw down funds and disburse loans before transmitting loan origination records to the LOC. However, schools should be cautious about this approach because it can cause confusion, result in LOC-rejected loan records, and delay disclosure statements to borrowers.

If a school transmits a disbursement record before a loan origination record, the LOC will reject the disbursement record. This applies to any school, no matter what its origination option is.

Take a Look

- See Chapter 4 for details about school origination options.
- See page 6-21 for details about promissory notes.
- See Chapter 7 for details about disbursements.

ED's *Direct Loan Technical Reference* provides details about the technical aspects of communication between schools and the LOC. Specifically, it includes information about record layouts, message classes, batches, tracking files, sending and retrieving record and acknowledgment files, acceptance and rejection codes, and so forth.

Loan Origination Center (LOC) Activities

The following sections provide a general description of what the LOC does after a school forwards a loan origination record to it.

Accepting and Rejecting Loan Origination Records

Direct Loan schools forward loan origination records to the LOC through electronic mail boxes that are set up in ED's TIV WAN.

- The LOC retrieves loan origination records from these mail boxes each day at approximately 8 pm (ET).
- After reviewing each loan origination record, the LOC accepts or rejects it on the basis of computer edits that identify whether the record is complete and accurate. (ED's *Direct Loan Technical Reference* refers to this procedure as the LOC "processing the data" in the loan origination records.)
- In general, the LOC returns the processed data to the school through TIV WAN by 8 am (ET) the next morning.

If the LOC accepts a loan origination record, it includes the loan ID number and borrower loan information in its Direct Loan database. It also sends a loan origination record acknowledgment to the school indicating that the loan has been accepted.

If the LOC rejects a loan origination record, the LOC does not include the loan ID number and borrower loan information in its Direct Loan database. The LOC still sends a loan origination record acknowledgment. However, the acknowledgement contains a rejection code showing that the LOC rejected the loan origination record. The rejection code also indicates the problem that causes the rejection.

Reference

- *Direct Loan Technical Reference*

For Your Information

ED is in the process of replacing TIV WAN with a Student Aid Internet Gateway (SAIG). ED will notify schools as the transfer proceeds.

For Your Information

Although the LOC generally processes data more quickly, it is allowed:

- up to three days to process Direct Subsidized Loans and Direct Unsubsidized Loans and
- up to five days to process Direct PLUS Loans.

Take a Look

See page 6-13 for details about Direct Loan ID numbers.

Examples of reasons for the LOC rejecting a loan origination record are:

- incomplete demographic information (such as missing name, address, or alien registration number),
- inconsistencies in the anticipated disbursement (for instance, the amount of the disbursement is greater than the approved loan amount),
- incorrect identifying information (such as an invalid school code or a Social Security number that belongs to another borrower), and
- incorrect approved loan amount (for instance, the approved loan amount is greater than the maximum annual loan limit).

Reference

- *Direct Loan Technical Reference*

The *Direct Loan Technical Reference* has a complete listing of reasons for rejecting a loan origination record. The listing includes the reject codes that schools will find in loan origination acknowledgments for rejected loan origination records.

LOC Tips for Avoiding Rejected Loan Origination Records

The LOC has compiled a list of tips for schools that submit loan origination records. To reduce the number of rejected loan origination records and deal effectively with the ones that are rejected, schools should:

- establish a regular production schedule for all loan processing steps;
    - These steps are covered in detail in the *Direct Loan Technical Reference.* They include entering data into loan origination records, exporting (sending) batches of loan origination records to the LOC, and importing (retrieving) loan origination record acknowledgments from the LOC
- back up their computer systems regularly and check to be sure the backups can be readily retrieved;
- maintain a record of the names of the files that are included in each batch of loan origination records forwarded to the LOC;
    - This will help if there is ever a need to recreate a batch.
- correct and re-send all rejected loan origination records as quickly as possible to avoid delays in processing loans. (Making changes to Direct Loan records is discussed in Chapter 8.)

Take a Look

See Chapter 8 for details about sending change records to the LOC.

Schools can call the LOC if they need help handling rejected loan origination records. The toll-free number is 1-800-848-0978.

Conducting Direct PLUS Loan Credit Checks

For Direct PLUS Loans origination records, the LOC conducts a credit check because a parent who has an adverse credit history generally is not allowed to borrow a Direct PLUS Loan. Chapter 5 defines and lists the effects of adverse credit, including options for borrowing Direct Loans even if a parent is not found to be creditworthy.

The LOC conducts a credit check with a national credit bureau each time a parent applies for a Direct PLUS Loan.

- If a parent does not have an adverse credit history, the LOC notifies him or her that the credit-check results are favorable.
    - The LOC also transmits a loan origination record acknowledgment to the school showing that the LOC accepts the record and that the parent does not have an adverse credit history.
- If a parent does not pass a credit check, the LOC notifies him or her of the reason for the rejection.
    - The notification includes an endorser form because one way for a parent who has an adverse credit history to borrow a Direct PLUS Loan is by obtaining a creditworthy endorser. The notification also asks the parent to contact the school about how he or she wants to proceed.
    - The LOC also notifies the school through a loan origination record acknowledgment that the record has been rejected because the parent has an adverse credit history.
- If the LOC cannot obtain a credit check through normal channels, it notifies the school through a loan origination record acknowledgment that a credit decision is "pending."

☎ **Where to Call**

Schools call the LOC at 1-800-848-0978 for help with rejected loan origination records.

Take a Look

See Chapter 5 for details about adverse credit history and other Direct PLUS Loan borrower eligibility requirements.

Disclosure Statement

After the origination process is complete, the LOC or the school (if authorized) sends the student borrower a disclosure statement. A sample of the 1999-2000 disclosure statement is on the next page. The disclosure statement is being revised to accommodate up to 20 anticipated disbursements.

The information on the disclosure statement used to be part of the promissory note. Now that the Direct Loan Program uses a master promissory note for students borrowing Direct Subsidized Loans and Direct Unsubsidized Loans, the disclosure statement has become a separate document that provides the borrower with information about:

- loan types,
- loan amounts,
- loan fee rate,
- amount of loan fee,
- anticipated disbursement dates, and
- net disbursements.

Take a Look

- See page 6-19 for a sample of the 1999-2000 disclosure statement. The 2000-01 disclosure statement is being revised to include an increased number of anticipated disbursements.
- See page 6-21 for details about master promissory notes.

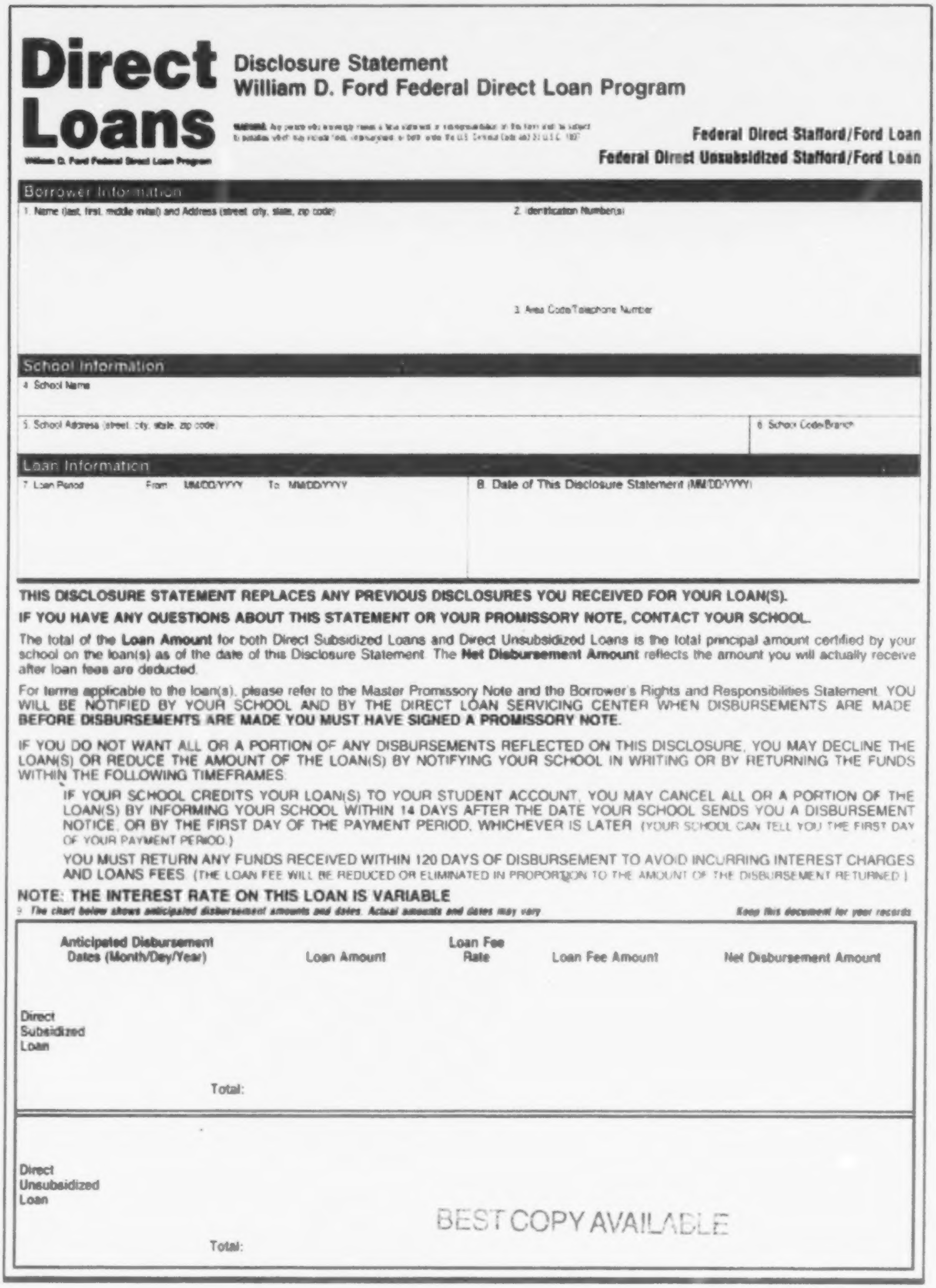
Printing Disclosure Statements

In general, the LOC (or sometimes the school) prints the disclosure statement and sends it to the student borrower. For 1999-2000, this occurs when the LOC accepts the loan origination record from the school. For 2000-01, the disclosure statement will be sent to the student borrower ten calendar days before the first anticipated disbursement date reported on the loan origination record. Disclosure statements are not sent to Direct PLUS Loan borrowers because the information is on the application/promissory note.

- ED may allow schools to print their own disclosure statements. However, authorization from ED is required if the school intends to print all of its disclosure statements.
- Interested schools should contact the LOC for further details at 1-800-848-0978.

☎ Where to Call

Schools that want to print their own disclosure statements should call the LOC at 1-800-848-0978.



Direct Loans
William D. Ford Federal Direct Loan Program

Disclosure Statement
William D. Ford Federal Direct Loan Program

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

Borrower Information

1. Name (last, first, middle initial) and Address (street, city, state, zip code)

2. Identification Number(s)

3. Area Code/Telephone Number

School Information

4. School Name

5. School Address (street, city, state, zip code)

6. School Code/Branch

Loan Information

7. Loan Period From MM/DD/YYYY To MM/DD/YYYY

8. Date of This Disclosure Statement (MM/DD/YYYY)

THIS DISCLOSURE STATEMENT REPLACES ANY PREVIOUS DISCLOSURES YOU RECEIVED FOR YOUR LOAN(S).

IF YOU HAVE ANY QUESTIONS ABOUT THIS STATEMENT OR YOUR PROMISSORY NOTE, CONTACT YOUR SCHOOL.

The total of the **Loan Amount** for both Direct Subsidized Loans and Direct Unsubsidized Loans is the total principal amount certified by your school on the loan(s) as of the date of this Disclosure Statement. The **Net Disbursement Amount** reflects the amount you will actually receive after loan fees are deducted.

For terms applicable to the loan(s), please refer to the Master Promissory Note and the Borrower's Rights and Responsibilities Statement. YOU WILL BE NOTIFIED BY YOUR SCHOOL AND BY THE DIRECT LOAN SERVICING CENTER WHEN DISBURSEMENTS ARE MADE. **BEFORE DISBURSEMENTS ARE MADE YOU MUST HAVE SIGNED A PROMISSORY NOTE.**

IF YOU DO NOT WANT ALL OR A PORTION OF ANY DISBURSEMENTS REFLECTED ON THIS DISCLOSURE, YOU MAY DECLINE THE LOAN(S) OR REDUCE THE AMOUNT OF THE LOAN(S) BY NOTIFYING YOUR SCHOOL IN WRITING OR BY RETURNING THE FUNDS WITHIN THE FOLLOWING TIMEFRAMES:

> IF YOUR SCHOOL CREDITS YOUR LOAN(S) TO YOUR STUDENT ACCOUNT, YOU MAY CANCEL ALL OR A PORTION OF THE LOAN(S) BY INFORMING YOUR SCHOOL WITHIN 14 DAYS AFTER THE DATE YOUR SCHOOL SENDS YOU A DISBURSEMENT NOTICE, OR BY THE FIRST DAY OF THE PAYMENT PERIOD, WHICHEVER IS LATER. (YOUR SCHOOL CAN TELL YOU THE FIRST DAY OF YOUR PAYMENT PERIOD.)
>
> YOU MUST RETURN ANY FUNDS RECEIVED WITHIN 120 DAYS OF DISBURSEMENT TO AVOID INCURRING INTEREST CHARGES AND LOANS FEES. (THE LOAN FEE WILL BE REDUCED OR ELIMINATED IN PROPORTION TO THE AMOUNT OF THE DISBURSEMENT RETURNED.)

NOTE: THE INTEREST RATE ON THIS LOAN IS VARIABLE

9. ***The chart below shows anticipated disbursement amounts and dates. Actual amounts and dates may vary.*** ***Keep this document for your records***

	Anticipated Disbursement Dates (Month/Day/Year)	Loan Amount	Loan Fee Rate	Loan Fee Amount	Net Disbursement Amount
Direct Subsidized Loan					
	Total:				
Direct Unsubsidized Loan					
	Total:				

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Reference

- "Dear Colleague" Letter, GEN 99-08
- *Direct Loan Bulletin*, 99-34

✦ More information on printing disclosure statements is in "Dear Colleague" Letter, GEN 99-08 and *Direct Loan Bulletin*, 99-34.

Timing of Disclosure Statements

Borrowers must receive disclosure statements before or at the time of the first disbursement of Direct Loan funds. Therefore, a school needs to submit the loan origination record to the LOC no later than the day the first disbursement is made to the borrower. This allows the LOC to print and send the disclosure statement in a timely fashion.

A school that has requested and obtained the authority from ED to distribute disclosure statements is allowed to:

- print its own disclosure statements or
- enter the information on a blank ED-produced disclosure statement.

In either case, the school must mail or give the statement to the borrower before or at the time of the first disbursement.

Any school is allowed to provide a copy of a disclosure statement to students on a case-by-case basis, such as if a student did not receive or has lost or misplaced the disclosure statement sent by the LOC. A school does not need permission from ED to provide disclosure statements on an occasional, case-by-case basis.

Reference

- "Dear Colleague" Letter, GEN 99-08
- *Direct Loan Bulletin*, 99-34

✦ For guidance on disclosure statements, see "Dear Colleague" Letter, GEN 99-08 and *Direct Loan Bulletin*, 99-34.

Loan Detail

Disclosure statements show student information. As a result, borrowers receiving both Direct Subsidized Loans and Direct Unsubsidized Loans whose loan origination records are processed together will receive one disclosure statement showing loan detail information for both loans.

✦ Under the current process for the 1999-2000 award year, borrowers receiving both Direct Subsidized Loans and Direct Unsubsidized Loans whose loan origination records are processed separately (on different days) will receive more than one disclosure statement.

- When this happens, the second disclosure statement will not show the loan detail information for both loans.

Beginning with the 2000-01 award year, there will be a different disclosure statement process. The disclosure statement will be sent to a student borrower ten calendar days before a loan's first anticipated disbursement date. Even if origination records for a student's Direct Subsidized Loan and Direct Unsubsidized Loan arrive at the LOC on different days, the disclosure statement will combine the information from both loans on one disclosure statement *if* both loans have the same first anticipated disbursement date *and* both loan origination records were processed earlier than ten calendar days before the first anticipated disbursement date for the loans.

Multiple Disclosure Statements

If a borrower applies to more than one school, each school might submit a loan origination record to the LOC. As a result, the borrower could receive multiple disclosure statements.

A disclosure statement provides important information about a borrower's loan. However, it is not a promissory note and does not require the borrower's signature. A borrower should focus only on the disclosure statement from the school he or she plans to attend and disregard disclosure statements from other schools. Borrowers who wish to borrow less than the amount shown on the disclosure statement should contact the financial aid office at the school they plan to attend and notify the financial aid office that they wish to borrow less.

Promissory Notes

After a school creates a loan origination record, the school or the LOC (depending or the school's origination option) prints a promissory note and sends it to the borrower (student or parent) to complete and sign.

- After the borrower completes and signs the note, he or she returns the promissory note to the organization that sent it (either the school or the LOC).

- If the borrower sends the promissory note back to the school, the school is responsible for forwarding it to the LOC.

Take a Look

See Chapter 4 for details about origination options.

The promissory note is the second of three components required to book a loan. As stated at different points in this guide, a loan is booked when the LOC receives and accepts:

- ✦ a loan origination record,
- ✦ a completed and signed promissory note, and
- ✦ a disbursement record.

Take a Look

- See page 6-7 for details about loan origination records.
- See Chapter 7 for details about loan disbursement.

At the point that a loan is booked, a legal and binding obligation is created between the borrower and ED. This is also the point in the Direct Loan process when ED's Direct Loan Servicing Center (DLSC) takes over from the LOC. The DLSC handles "back-end" processes, such as repayment and collections. More information about these back-end processes is in Chapter 12.

Take a Look

See Chapter 12 for details about the DLSC.

In the promissory note process, borrowers (students and parents), schools, and ED's LOC play active roles. This section first describes the types of Direct Loan promissory notes, which are different for students and parents. Next, the section focuses individually on the activities of borrowers, schools, and the LOC.

Types of Direct Loan Promissory Notes

In general, promissory notes contain information about:

- ✦ interest rates;
- ✦ repayment terms, such as when repayments begin, how long the borrower has to repay the loan, minimum monthly payments, and so forth;
- ✦ deferment, forbearance, and cancellation provisions; and
- ✦ late charges.

Take a Look

See Chapter 2 for details about basic Direct Loan components, such as borrowing limits, interest rates, repayment terms, and so forth.

The Direct Loan Program has two types of promissory notes:

- ✦ master promissory notes, which are used for student loans (Direct Subsidized Loans and Direct Unsubsidized Loans), and
- ✦ application/promissory notes, which are used for parent loans (Direct PLUS Loans).

Master Promissory Note (for Direct Subsidized Loans and Direct Unsubsidized Loans)

In the past, students signed new promissory notes for each loan that they borrowed. Depending on circumstances, there were even times when students had to sign more than one promissory note in a single academic year.

With the 1999-2000 academic year, ED moved to a master promissory note so students (in most cases) no longer have to sign more than one note in an academic year. Furthermore, starting in 2000-01 at approved schools, the master promissory note will allow students to accept multiple loans over multiple academic years without signing a new note.

Take a Look

See page 6-32 for details about when a new master promissory note must be signed.

The following information provides details about Direct Loan master promissory notes:

- For 1999-2000, master promissory notes are single-year notes.
- For 1999-2000, the master promissory notes will be the only approved promissory note for Direct Subsidized Loans and Direct Unsubsidized Loans.
  - The master promissory note will *not* be used for Direct PLUS Loans.
- Beginning in 2000-01, borrowers at approved schools will be able to use one master promissory note to accept multiple loans over multiple academic years.

Take a Look

See page 6-32 for details about Direct PLUS Loan application/promissory note.

The master promissory note is different from promissory notes used in past academic years. It has been simplified in several ways.

- All student certification and authorization fields are on the front page of the master promissory note.
- All loan information certified by the school is now on the disclosure statement, thus streamlining the master promissory note.
  - The information that has been moved to the disclosure statement includes:
    - loan type,
    - loan amount,

Take a Look

See page 6-18 for details about disclosure statements.

    - loan fee rate,
    - amount of loan fee,
    - anticipated disbursement dates, and
    - net disbursement.

- ED has simplified the print specifications for Origination Option 1 schools and Origination Option 2 schools so that aligning promissory notes in school printers is easier and scanning the data at the LOC is more accurate.
  - Origination Option 1 schools and Origination Option 2 schools have the authority to print, distribute, and collect their own master promissory notes from their student borrowers.
  - Standard Origination schools do not have the authority to print, distribute, or collect master promissory notes. The LOC must do it for them.
- The new master promissory note does not print a loan dollar amount.
  - As a result, schools can change loan amounts without borrowers signing new master promissory notes.
  - A school also can change the distribution between Direct Subsidized Loans and Direct Unsubsidized Loans without a new master promissory note.

Take a Look

- See Chapter 4 for details about origination options.
- See page 6-36 for details about Origination Option 1 schools and Origination Option 2 schools printing Direct Loan promissory notes.

For 1999-2000, ED has two versions of the Direct Loan master promissory note. This guide refers to the two versions as the "original" version and the "revised" version. For 1999-2000, schools are allowed to use either version.

- Beginning on the next page are samples of the original and revised version of the master promissory notes.
- The samples include the instructions that accompany each version.

The only difference between the two versions is in Item 8. Aside from Item 8 (and instructions related to Item 8), the two versions of the master promissory note are the same.

Item 8 deals with the loan amount requested by the student.

Take a Look

See pages 6-26 through 6-31 for samples of the "original" version and "revised" version of the master promissory note.

For Your Information

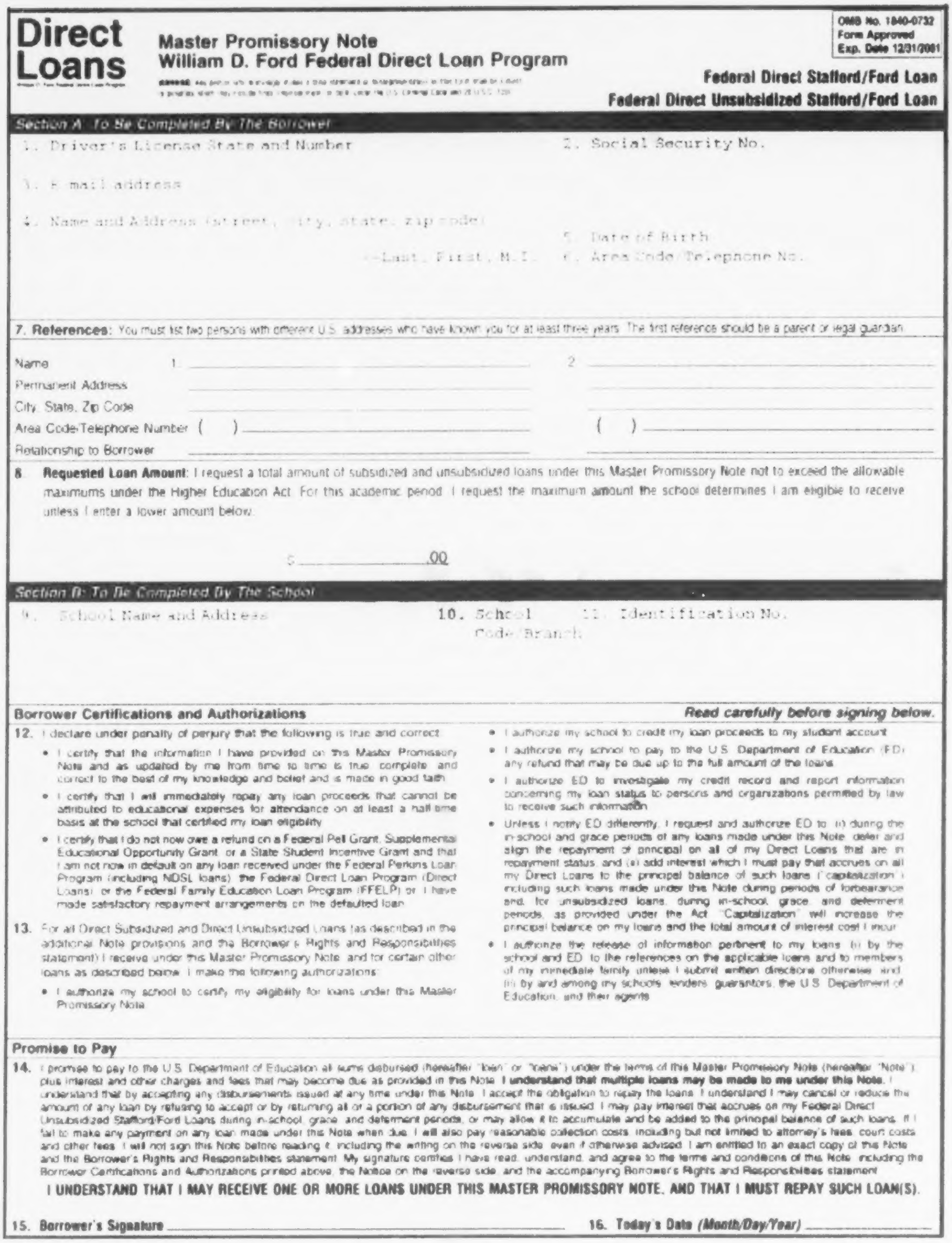
In the future, ED might withdraw the "original" version of the master promissory note. Schools will be notified in advance if ED decides to do this.

- The original version of the master promissory note has a space in Item 8 for students, at their option, to enter the loan amounts they are requesting.
    - Even if a student enters an amount, the LOC does not collect loan amount information from the master promissory note.
- In the revised master promissory note, Item 8 does not provide a space for students to enter requested loan amounts. Instead, it has a statement that informs students of:
    - their right to cancel loans or request a lower loan amount for each academic period and
    - where to find information about how to reduce or cancel loans that they have already received.

Because the LOC does not collect information on the loan amount requested, schools may disburse up to the dollar amount students are eligible to receive without having them sign new notes.

- However, if a student enters an amount in Item 8 of the original version of the master promissory note that is less than his or her maximum eligibility, the school must document in its files whenever the student changes his or her mind and requests the additional funds the student is eligible to receive.

"Original" Version



Direct Loans

Master Promissory Note
William D. Ford Federal Direct Loan Program

[illegible]

OMB No. 1840-0732
Form Approved
Exp. Date 12/31/2001

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

Section A: To Be Completed By The Borrower

1. Driver's License State and Number
2. Social Security No.
3. E-mail address
4. Name and Address (street, city, state, zip code)
←Last, First, M.I.
5. Date of Birth
6. Area Code/Telephone No.

7. References: You must list two persons with different U.S. addresses who have known you for at least three years. The first reference should be a parent or legal guardian.

Name	1. ______	2. ______
Permanent Address	______	______
City, State, Zip Code	______	______
Area Code/Telephone Number	( ) ______	( ) ______
Relationship to Borrower	______	______

8. **Requested Loan Amount:** I request a total amount of subsidized and unsubsidized loans under this Master Promissory Note not to exceed the allowable maximums under the Higher Education Act. For this academic period, I request the maximum amount the school determines I am eligible to receive unless I enter a lower amount below.

$ ______ .00

Section B: To Be Completed By The School

9. School Name and Address
10. School Code/Branch
11. Identification No.

Borrower Certifications and Authorizations — ***Read carefully before signing below.***

12. I declare under penalty of perjury that the following is true and correct:

- I certify that the information I have provided on this Master Promissory Note and as updated by me from time to time is true, complete, and correct to the best of my knowledge and belief and is made in good faith.
- I certify that I will immediately repay any loan proceeds that cannot be attributed to educational expenses for attendance on at least a half-time basis at the school that certified my loan eligibility.
- I certify that I do not now owe a refund on a Federal Pell Grant, Supplemental Educational Opportunity Grant, or a State Student Incentive Grant and that I am not now in default on any loan received under the Federal Perkins Loan Program (including NDSL loans), the Federal Direct Loan Program (Direct Loans), or the Federal Family Education Loan Program (FFELP) or I have made satisfactory repayment arrangements on the defaulted loan.

13. For all Direct Subsidized and Direct Unsubsidized Loans (as described in the additional Note provisions and the Borrower's Rights and Responsibilities statement) I receive under this Master Promissory Note, and for certain other loans as described below, I make the following authorizations:

- I authorize my school to certify my eligibility for loans under this Master Promissory Note.
- I authorize my school to credit my loan proceeds to my student account.
- I authorize my school to pay to the U.S. Department of Education (ED) any refund that may be due up to the full amount of the loans.
- I authorize ED to investigate my credit record and report information concerning my loan status to persons and organizations permitted by law to receive such information.
- Unless I notify ED differently, I request and authorize ED to: (i) during the in-school and grace periods of any loans made under this Note, defer and align the repayment of principal on all of my Direct Loans that are in repayment status, and (ii) add interest which I must pay that accrues on all my Direct Loans to the principal balance of such loans ("capitalization"), including such loans made under this Note during periods of forbearance and, for unsubsidized loans, during in-school, grace, and deferment periods, as provided under the Act. "Capitalization" will increase the principal balance on my loans and the total amount of interest cost I incur.
- I authorize the release of information pertinent to my loans: (i) by the school and ED, to the references on the applicable loans and to members of my immediate family unless I submit written directions otherwise; and (ii) by and among my schools, lenders, guarantors, the U.S. Department of Education, and their agents.

Promise to Pay

14. I promise to pay to the U.S. Department of Education all sums disbursed (hereafter "loan" or "loans") under the terms of this Master Promissory Note (hereafter "Note"), plus interest and other charges and fees that may become due as provided in this Note. **I understand that multiple loans may be made to me under this Note.** I understand that by accepting any disbursements issued at any time under this Note, I accept the obligation to repay the loans. I understand I may cancel or reduce the amount of any loan by refusing to accept or by returning all or a portion of any disbursement that is issued. I may pay interest that accrues on my Federal Direct Unsubsidized Stafford/Ford Loans during in-school, grace, and deferment periods, or may allow it to accumulate and be added to the principal balance of such loans. If I fail to make any payment on any loan made under this Note when due, I will also pay reasonable collection costs, including but not limited to attorney's fees, court costs and other fees. I will not sign this Note before reading it, including the writing on the reverse side, even if otherwise advised. I am entitled to an exact copy of this Note and the Borrower's Rights and Responsibilities statement. My signature certifies I have read, understand, and agree to the terms and conditions of this Note, including the Borrower Certifications and Authorizations printed above, the Notice on the reverse side, and the accompanying Borrower's Rights and Responsibilities statement.

I UNDERSTAND THAT I MAY RECEIVE ONE OR MORE LOANS UNDER THIS MASTER PROMISSORY NOTE, AND THAT I MUST REPAY SUCH LOAN(S).

15. **Borrower's Signature** ______
16. **Today's Date *(Month/Day/Year)*** ______

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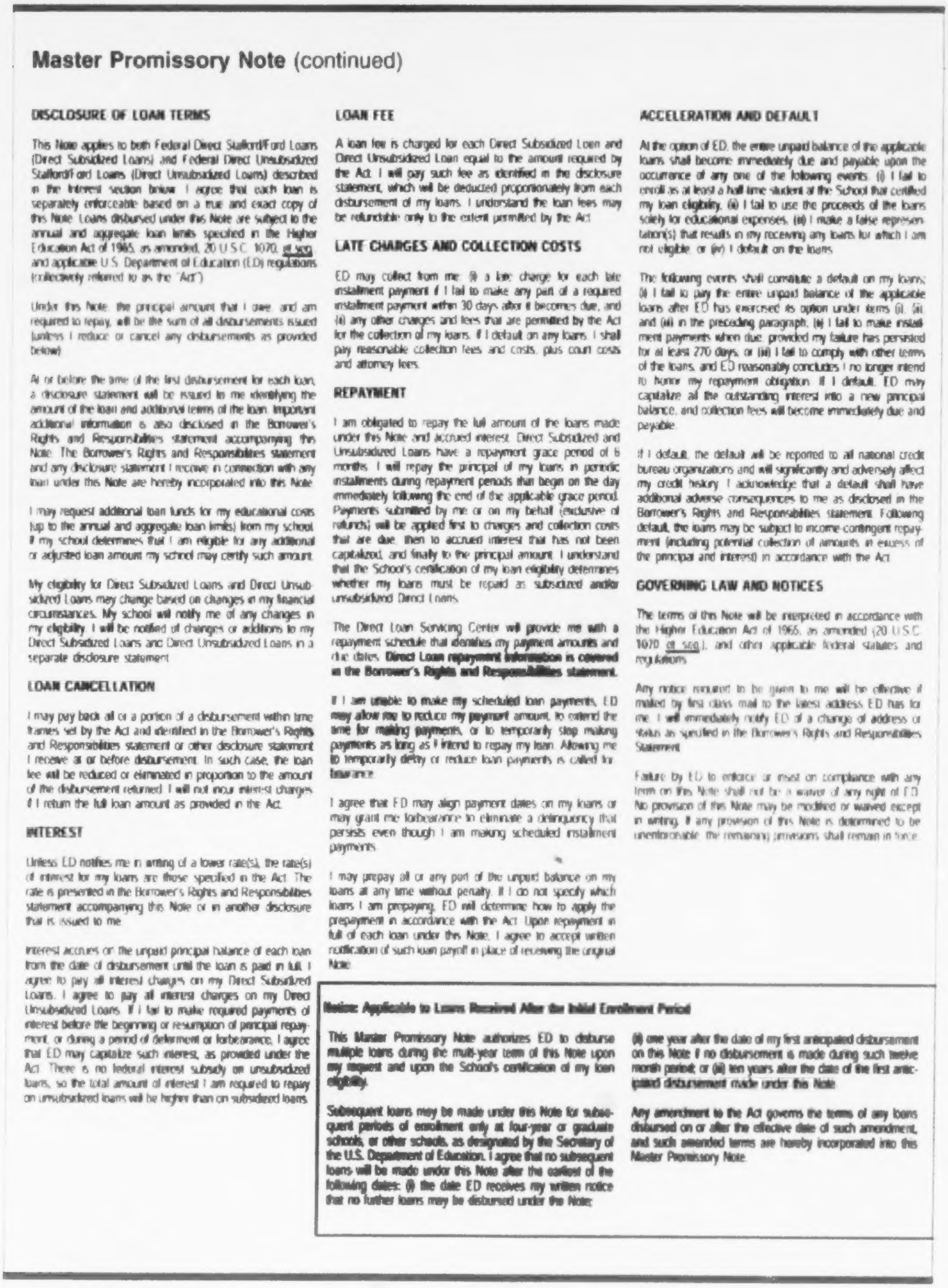
"Original" Version



Master Promissory Note (continued)

DISCLOSURE OF LOAN TERMS

This Note applies to both Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) and Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans) described in the Interest section below. I agree that each loan is separately enforceable based on a true and exact copy of this Note. Loans disbursed under this Note are subject to the annual and aggregate loan limits specified in the Higher Education Act of 1965, as amended, 20 U.S.C. 1070, et seq. and applicable U.S. Department of Education (ED) regulations (collectively referred to as the "Act").

Under this Note, the principal amount that I owe, and am required to repay, will be the sum of all disbursements issued (unless I reduce or cancel any disbursements as provided below).

At or before the time of the first disbursement for each loan, a disclosure statement will be issued to me identifying the amount of the loan and additional terms of the loan. Important additional information is also disclosed in the Borrower's Rights and Responsibilities statement accompanying this Note. The Borrower's Rights and Responsibilities statement and any disclosure statement I receive in connection with any loan under this Note are hereby incorporated into this Note.

I may request additional loan funds for my educational costs (up to the annual and aggregate loan limits) from my school. If my school determines that I am eligible for any additional or adjusted loan amount my school may certify such amount.

My eligibility for Direct Subsidized Loans and Direct Unsubsidized Loans may change based on changes in my financial circumstances. My school will notify me of any changes in my eligibility. I will be notified of changes or additions to my Direct Subsidized Loans and Direct Unsubsidized Loans in a separate disclosure statement.

LOAN CANCELLATION

I may pay back all or a portion of a disbursement within time frames set by the Act and identified in the Borrower's Rights and Responsibilities statement or other disclosure statement I receive at or before disbursement. In such case, the loan fee will be reduced or eliminated in proportion to the amount of the disbursement returned. I will not incur interest charges if I return the full loan amount as provided in the Act.

INTEREST

Unless ED notifies me in writing of a lower rate(s), the rate(s) of interest for my loans are those specified in the Act. The rate is presented in the Borrower's Rights and Responsibilities statement accompanying this Note or in another disclosure that is issued to me.

Interest accrues on the unpaid principal balance of each loan from the date of disbursement until the loan is paid in full. I agree to pay all interest charges on my Direct Subsidized Loans. I agree to pay all interest charges on my Direct Unsubsidized Loans. If I fail to make required payments of interest before the beginning or resumption of principal repayment, or during a period of deferment or forbearance, I agree that ED may capitalize such interest, as provided under the Act. There is no federal interest subsidy on unsubsidized loans, so the total amount of interest I am required to repay on unsubsidized loans will be higher than on subsidized loans.

LOAN FEE

A loan fee is charged for each Direct Subsidized Loan and Direct Unsubsidized Loan equal to the amount required by the Act. I will pay such fee as identified in the disclosure statement, which will be deducted proportionately from each disbursement of my loans. I understand the loan fees may be refundable only to the extent permitted by the Act.

LATE CHARGES AND COLLECTION COSTS

ED may collect from me: (i) a late charge for each late installment payment if I fail to make any part of a required installment payment within 30 days after it becomes due, and (ii) any other charges and fees that are permitted by the Act for the collection of my loans. If I default on any loans, I shall pay reasonable collection fees and costs, plus court costs and attorney fees.

REPAYMENT

I am obligated to repay the full amount of the loans made under this Note and accrued interest. Direct Subsidized and Unsubsidized Loans have a repayment grace period of 6 months. I will repay the principal of my loans in periodic installments during repayment periods that begin on the day immediately following the end of the applicable grace period. Payments submitted by me or on my behalf (exclusive of refunds) will be applied first to charges and collection costs that are due, then to accrued interest that has not been capitalized, and finally to the principal amount. I understand that the School's certification of my loan eligibility determines whether my loans must be repaid as subsidized and/or unsubsidized Direct Loans.

The Direct Loan Servicing Center will provide me with a repayment schedule that identifies my payment amounts and due dates. **Direct Loan repayment information is covered in the Borrower's Rights and Responsibilities statement.**

If I am unable to make my scheduled loan payments, ED may allow me to reduce my payment amount, to extend the time for making payments, or to temporarily stop making payments as long as I intend to repay my loan. Allowing me to temporarily delay or reduce loan payments is called forbearance.

I agree that ED may align payment dates on my loans or may grant me forbearance to eliminate a delinquency that persists even though I am making scheduled installment payments.

I may prepay all or any part of the unpaid balance on my loans at any time without penalty. If I do not specify which loans I am prepaying, ED will determine how to apply the prepayment in accordance with the Act. Upon repayment in full of each loan under this Note, I agree to accept written notification of such loan payoff in place of receiving the original Note.

ACCELERATION AND DEFAULT

At the option of ED, the entire unpaid balance of the applicable loans shall become immediately due and payable upon the occurrence of any one of the following events: (i) I fail to enroll as at least a half-time student at the School that certified my loan eligibility, (ii) I fail to use the proceeds of the loans solely for educational expenses, (iii) I make a false representation(s) that results in my receiving any loans for which I am not eligible, or (iv) I default on the loans.

The following events shall constitute a default on my loans: (i) I fail to pay the entire unpaid balance of the applicable loans after ED has exercised its option under items (i), (ii), and (iii) in the preceding paragraph; (ii) I fail to make installment payments when due, provided my failure has persisted for at least 270 days; or (iii) I fail to comply with other terms of the loans, and ED reasonably concludes I no longer intend to honor my repayment obligation. If I default, ED may capitalize all the outstanding interest into a new principal balance, and collection fees will become immediately due and payable.

If I default, the default will be reported to all national credit bureau organizations and will significantly and adversely affect my credit history. I acknowledge that a default shall have additional adverse consequences to me as disclosed in the Borrower's Rights and Responsibilities statement. Following default, the loans may be subject to income-contingent repayment (including potential collection of amounts in excess of the principal and interest) in accordance with the Act.

GOVERNING LAW AND NOTICES

The terms of this Note will be interpreted in accordance with the Higher Education Act of 1965, as amended (20 U.S.C. 1070 et seq.), and other applicable federal statutes and regulations.

Any notice required to be given to me will be effective if mailed by first class mail to the latest address ED has for me. I will immediately notify ED of a change of address or status as specified in the Borrower's Rights and Responsibilities Statement.

Failure by ED to enforce or insist on compliance with any term on this Note shall not be a waiver of any right of ED. No provision of this Note may be modified or waived except in writing. If any provision of this Note is determined to be unenforceable, the remaining provisions shall remain in force.

Notice: Applicable to Loans Received After the Initial Enrollment Period

This Master Promissory Note authorizes ED to disburse multiple loans during the multi-year term of this Note upon my request and upon the School's certification of my loan eligibility.

Subsequent loans may be made under this Note for subsequent periods of enrollment only at four-year or graduate schools, or other schools, as designated by the Secretary of the U.S. Department of Education. I agree that no subsequent loans will be made under this Note after the earliest of the following dates: (i) the date ED receives my written notice that no further loans may be disbursed under the Note; (ii) one year after the date of my first anticipated disbursement on this Note if no disbursement is made during such twelve month period; or (iii) ten years after the date of the first anticipated disbursement made under this Note.

Any amendment to the Act governs the terms of any loans disbursed on or after the effective date of such amendment, and such amended terms are hereby incorporated into this Master Promissory Note.

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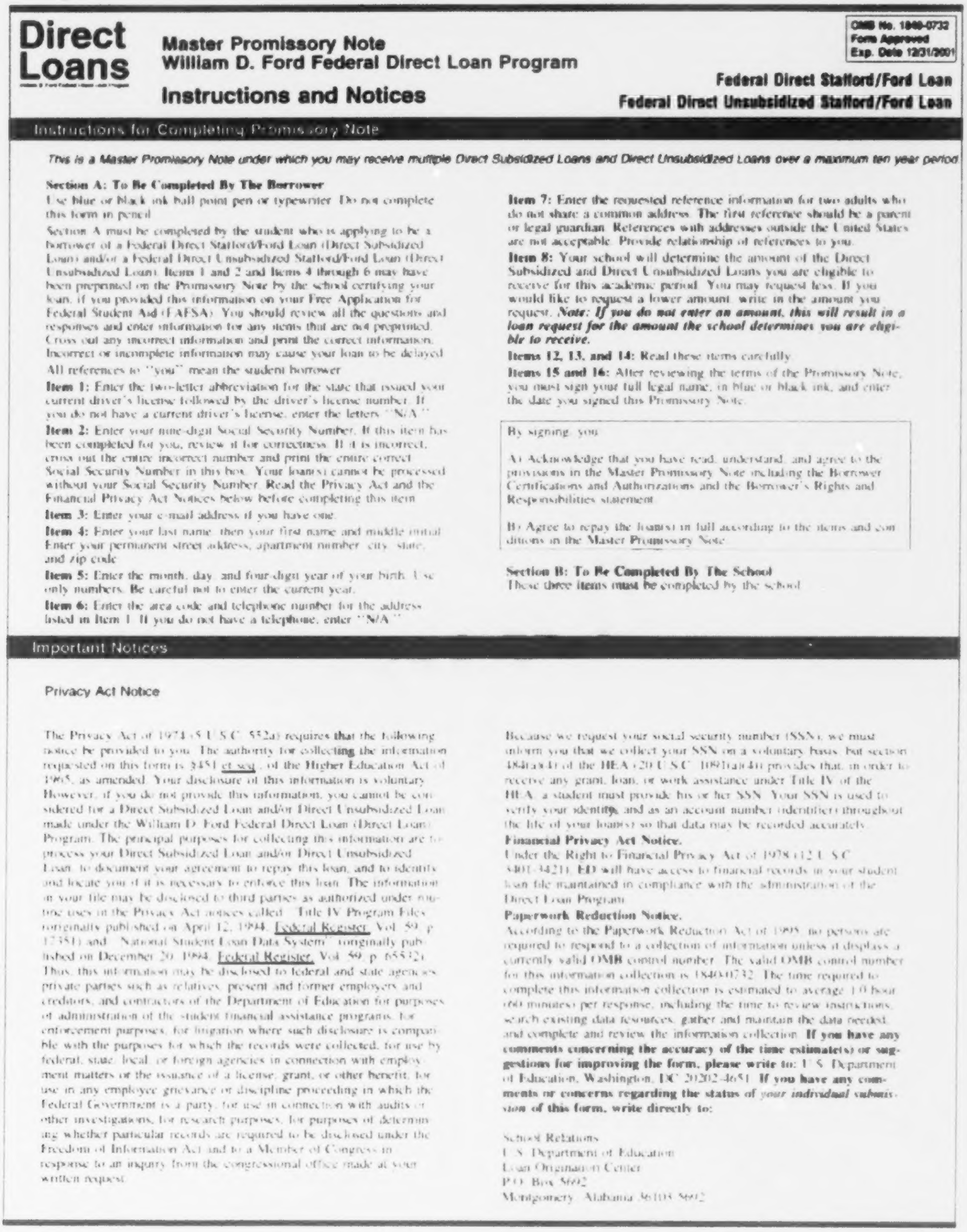

Direct Loans

Master Promissory Note
William D. Ford Federal Direct Loan Program
Instructions and Notices

OMB No. 1840-0732
Form Approved
Exp. Date 12/31/2001

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

Instructions for Completing Promissory Note

This is a Master Promissory Note under which you may receive multiple Direct Subsidized Loans and Direct Unsubsidized Loans over a maximum ten year period

Section A: To Be Completed By The Borrower
Use blue or black ink ball point pen or typewriter. Do not complete this form in pencil.

Section A must be completed by the student who is applying to be a borrower of a Federal Direct Stafford/Ford Loan (Direct Subsidized Loan) and/or a Federal Direct Unsubsidized Stafford/Ford Loan (Direct Unsubsidized Loan). Items 1 and 2 and Items 4 through 6 may have been preprinted on the Promissory Note by the school certifying your loan, if you provided this information on your Free Application for Federal Student Aid (FAFSA). You should review all the questions and responses and enter information for any items that are not preprinted. Cross out any incorrect information and print the correct information. Incorrect or incomplete information may cause your loan to be delayed.

All references to "you" mean the student borrower.

Item 1: Enter the two-letter abbreviation for the state that issued your current driver's license followed by the driver's license number. If you do not have a current driver's license, enter the letters "N/A."

Item 2: Enter your nine-digit Social Security Number. If this item has been completed for you, review it for correctness. If it is incorrect, cross out the entire incorrect number and print the entire correct Social Security Number in this box. Your loan(s) cannot be processed without your Social Security Number. Read the Privacy Act and the Financial Privacy Act Notices below before completing this item.

Item 3: Enter your e-mail address if you have one.

Item 4: Enter your last name, then your first name and middle initial. Enter your permanent street address, apartment number, city, state, and zip code.

Item 5: Enter the month, day, and four-digit year of your birth. Use only numbers. Be careful not to enter the current year.

Item 6: Enter the area code and telephone number for the address listed in Item 1. If you do not have a telephone, enter "N/A."

Item 7: Enter the requested reference information for two adults who do not share a common address. The first reference should be a parent or legal guardian. References with addresses outside the United States are not acceptable. Provide relationship of references to you.

Item 8: Your school will determine the amount of the Direct Subsidized and Direct Unsubsidized Loans you are eligible to receive for this academic period. You may request less. If you would like to request a lower amount, write in the amount you request. ***Note: If you do not enter an amount, this will result in a loan request for the amount the school determines you are eligible to receive.***

Items 12, 13, and 14: Read these items carefully.

Items 15 and 16: After reviewing the terms of the Promissory Note, you must sign your full legal name, in blue or black ink, and enter the date you signed this Promissory Note.

By signing, you:

A) Acknowledge that you have read, understand, and agree to the provisions in the Master Promissory Note including the Borrower Certifications and Authorizations and the Borrower's Rights and Responsibilities statement.

B) Agree to repay the loan(s) in full according to the items and conditions in the Master Promissory Note.

Section B: To Be Completed By The School
These three items must be completed by the school.

Important Notices

Privacy Act Notice

The Privacy Act of 1974 (5 U.S.C. 552a) requires that the following notice be provided to you. The authority for collecting the information requested on this form is §451 et seq., of the Higher Education Act of 1965, as amended. Your disclosure of this information is voluntary. However, if you do not provide this information, you cannot be considered for a Direct Subsidized Loan and/or Direct Unsubsidized Loan made under the William D. Ford Federal Direct Loan (Direct Loan) Program. The principal purposes for collecting this information are to process your Direct Subsidized Loan and/or Direct Unsubsidized Loan, to document your agreement to repay this loan, and to identify and locate you if it is necessary to enforce this loan. The information in your file may be disclosed to third parties as authorized under routine uses in the Privacy Act notices called "Title IV Program Files" (originally published on April 12, 1994, Federal Register, Vol. 59, p. 17351) and "National Student Loan Data System" (originally published on December 20, 1994, Federal Register, Vol. 59, p. 65532). Thus, this information may be disclosed to federal and state agencies, private parties such as relatives, present and former employers and creditors, and contractors of the Department of Education for purposes of administration of the student financial assistance programs, for enforcement purposes, for litigation where such disclosure is compatible with the purposes for which the records were collected, for use by federal, state, local, or foreign agencies in connection with employment matters or the issuance of a license, grant, or other benefit, for use in any employee grievance or discipline proceeding in which the Federal Government is a party, for use in connection with audits or other investigations, for research purposes, for purposes of determining whether particular records are required to be disclosed under the Freedom of Information Act and to a Member of Congress in response to an inquiry from the congressional office made at your written request.

Because we request your social security number (SSN), we must inform you that we collect your SSN on a voluntary basis, but section 484(a)(4) of the HEA (20 U.S.C. 1091(a)(4)) provides that, in order to receive any grant, loan, or work assistance under Title IV of the HEA, a student must provide his or her SSN. Your SSN is used to verify your identity, and as an account number (identifier) throughout the life of your loan(s) so that data may be recorded accurately.

Financial Privacy Act Notice.
Under the Right to Financial Privacy Act of 1978 (12 U.S.C. 3401-3421), ED will have access to financial records in your student loan file maintained in compliance with the administration of the Direct Loan Program.

Paperwork Reduction Notice.
According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a currently valid OMB control number. The valid OMB control number for this information collection is 1840-0732. The time required to complete this information collection is estimated to average 1.0 hour (60 minutes) per response, including the time to review instructions, search existing data resources, gather and maintain the data needed, and complete and review the information collection. **If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving the form, please write to:** U.S. Department of Education, Washington, DC 20202-4651. **If you have any comments or concerns regarding the status of *your individual submission* of this form, write directly to:**

School Relations
U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, Alabama 36103-5692

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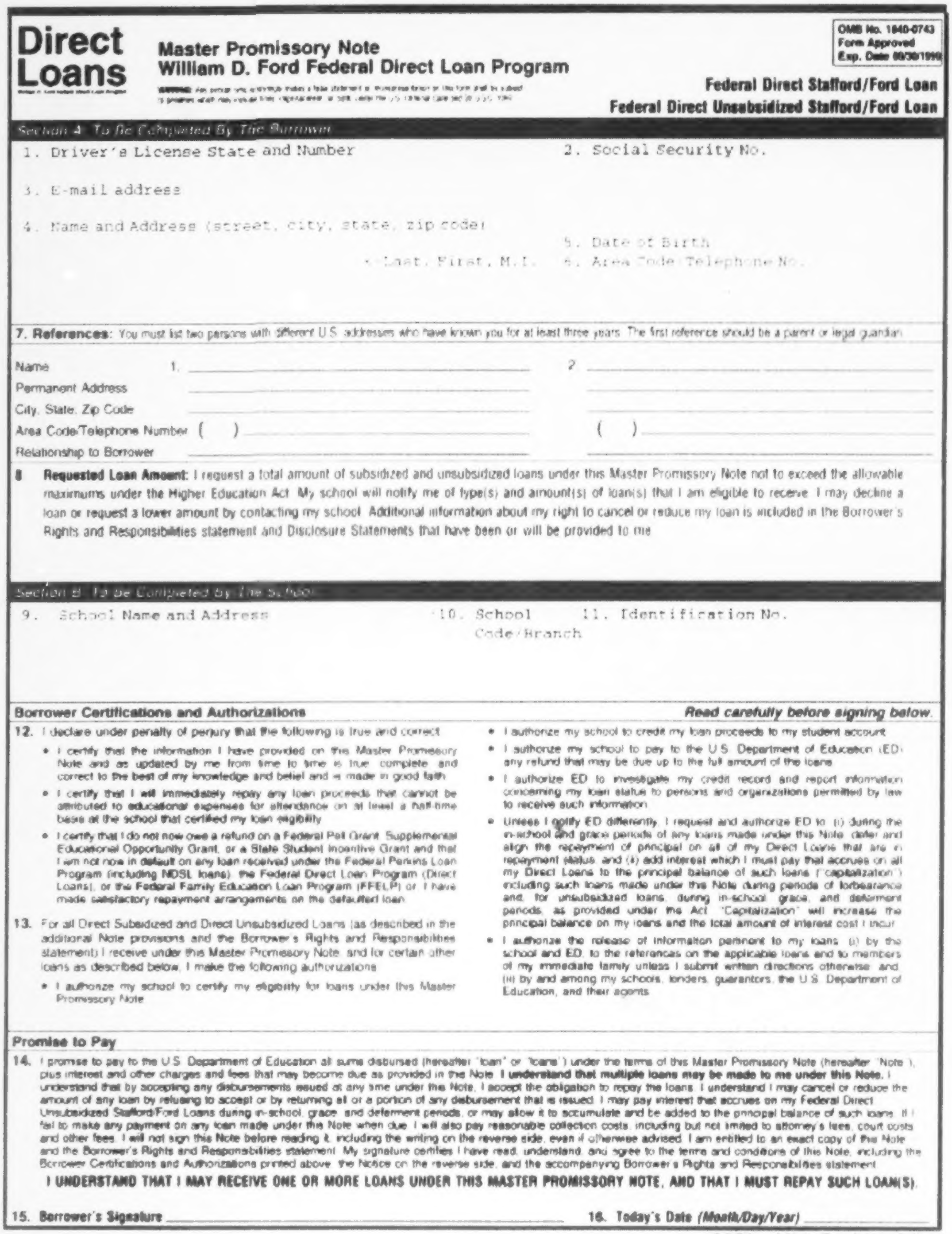
"Revised" Version



Direct Loans

Master Promissory Note
William D. Ford Federal Direct Loan Program

OMB No. 1840-0743
Form Approved
Exp. Date 09/30/1999

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

Section A: To Be Completed By The Borrower

1. Driver's License State and Number
2. Social Security No.
3. E-mail address
4. Name and Address (street, city, state, zip code)
Last, First, M.I.
5. Date of Birth
6. Area Code/Telephone No.

7. References: You must list two persons with different U.S. addresses who have known you for at least three years. The first reference should be a parent or legal guardian.

Name	1. ______	2. ______
Permanent Address	______	______
City, State, Zip Code	______	______
Area Code/Telephone Number	( ) ______	( ) ______
Relationship to Borrower	______	______

8. **Requested Loan Amount:** I request a total amount of subsidized and unsubsidized loans under this Master Promissory Note not to exceed the allowable maximums under the Higher Education Act. My school will notify me of type(s) and amount(s) of loan(s) that I am eligible to receive. I may decline a loan or request a lower amount by contacting my school. Additional information about my right to cancel or reduce my loan is included in the Borrower's Rights and Responsibilities statement and Disclosure Statements that have been or will be provided to me.

Section B: To Be Completed By The School

9. School Name and Address
10. School Code/Branch
11. Identification No.

Borrower Certifications and Authorizations *Read carefully before signing below.*

12. I declare under penalty of perjury that the following is true and correct:
- I certify that the information I have provided on this Master Promissory Note and as updated by me from time to time is true, complete, and correct to the best of my knowledge and belief and is made in good faith.
- I certify that I will immediately repay any loan proceeds that cannot be attributed to educational expenses for attendance on at least a half-time basis at the school that certified my loan eligibility.
- I certify that I do not now owe a refund on a Federal Pell Grant, Supplemental Educational Opportunity Grant, or a State Student Incentive Grant and that I am not now in default on any loan received under the Federal Perkins Loan Program (including NDSL loans), the Federal Direct Loan Program (Direct Loans), or the Federal Family Education Loan Program (FFELP) or I have made satisfactory repayment arrangements on the defaulted loan.

13. For all Direct Subsidized and Direct Unsubsidized Loans (as described in the additional Note provisions and the Borrower's Rights and Responsibilities statement) I receive under this Master Promissory Note, and for certain other loans as described below, I make the following authorizations:
- I authorize my school to certify my eligibility for loans under this Master Promissory Note.
- I authorize my school to credit my loan proceeds to my student account.
- I authorize my school to pay to the U.S. Department of Education (ED) any refund that may be due up to the full amount of the loans.
- I authorize ED to investigate my credit record and report information concerning my loan status to persons and organizations permitted by law to receive such information.
- Unless I notify ED differently, I request and authorize ED to: (i) during the in-school and grace periods of any loans made under this Note, defer and align the repayment of principal on all of my Direct Loans that are in repayment status, and (ii) add interest which I must pay that accrues on all my Direct Loans to the principal balance of such loans ("capitalization") including such loans made under the Note during periods of forbearance and, for unsubsidized loans, during in-school, grace, and deferment periods, as provided under the Act. "Capitalization" will increase the principal balance on my loans and the total amount of interest cost I incur.
- I authorize the release of information pertinent to my loans: (i) by the school and ED, to the references on the applicable loans and to members of my immediate family unless I submit written directions otherwise; and (ii) by and among my schools, lenders, guarantors, the U.S. Department of Education, and their agents.

Promise to Pay

14. I promise to pay to the U.S. Department of Education all sums disbursed (hereafter "loan" or "loans") under the terms of this Master Promissory Note (hereafter "Note"), plus interest and other charges and fees that may become due as provided in the Note. **I understand that multiple loans may be made to me under this Note.** I understand that by accepting any disbursements issued at any time under this Note, I accept the obligation to repay the loans. I understand I may cancel or reduce the amount of any loan by refusing to accept or by returning all or a portion of any disbursement that is issued. I may pay interest that accrues on my Federal Direct Unsubsidized Stafford/Ford Loans during in-school, grace, and deferment periods, or may allow it to accumulate and be added to the principal balance of such loans. If I fail to make any payment on any loan made under this Note when due, I will also pay reasonable collection costs, including but not limited to attorney's fees, court costs and other fees. I will not sign this Note before reading it, including the writing on the reverse side, even if otherwise advised. I am entitled to an exact copy of this Note and the Borrower's Rights and Responsibilities statement. My signature certifies I have read, understand, and agree to the terms and conditions of this Note, including the Borrower Certifications and Authorizations printed above, the Notice on the reverse side, and the accompanying Borrower's Rights and Responsibilities statement.

I UNDERSTAND THAT I MAY RECEIVE ONE OR MORE LOANS UNDER THIS MASTER PROMISSORY NOTE, AND THAT I MUST REPAY SUCH LOAN(S).

15. Borrower's Signature ______________________ **16. Today's Date** ***(Month/Day/Year)*** ______________

Additional Note Provisions follow

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Master Promissory Note (continued)

DISCLOSURE OF LOAN TERMS

This Note applies to both Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) and Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans) described in the Interest section below. I agree that each loan is separately enforceable based on a true and exact copy of this Note. Loans disbursed under this Note are subject to the annual and aggregate loan limits specified in the Higher Education Act of 1965, as amended, 20 U.S.C. 1070 et seq., and applicable U.S. Department of Education (ED) regulations (collectively referred to as the "Act").

Under this Note, the principal amount that I owe, and am required to repay, will be the sum of all disbursements issued (unless I reduce or cancel any disbursements as provided below).

At or before the time of the first disbursement for each loan, a disclosure statement will be issued to me identifying the amount of the loan and additional terms of the loan. Important additional information is also disclosed in the Borrower's Rights and Responsibilities statement accompanying this Note. The Borrower's Rights and Responsibilities statement and any disclosure statement I receive in connection with any loan under this Note are hereby incorporated into this Note.

I may request additional loan funds for my educational costs (up to the annual and aggregate loan limits) from my school. If my school determines that I am eligible for any additional or adjusted loan amount my school may certify such amount.

My eligibility for Direct Subsidized Loans and Direct Unsubsidized Loans may change based on changes in my financial circumstances. My school will notify me of any changes in my eligibility. I will be notified of changes or additions to my Direct Subsidized Loans and Direct Unsubsidized Loans in a separate disclosure statement.

LOAN CANCELLATION

I may pay back all or a portion of a disbursement within time frames set by the Act and identified in the Borrower's Rights and Responsibilities statement or other disclosure statement I receive at or before disbursement. In such case, the loan fee will be reduced or eliminated in proportion to the amount of the disbursement returned. I will not incur interest charges if I return the full loan amount as provided in the Act.

INTEREST

Unless ED notifies me in writing of a lower rate(s), the rate(s) of interest for my loans are those specified in the Act. The rate is presented in the Borrower's Rights and Responsibilities statement accompanying this Note or in another disclosure that is issued to me.

Interest accrues on the unpaid principal balance of each loan from the date of disbursement until the loan is paid in full. I agree to pay all interest charges on my Direct Subsidized Loans. I agree to pay all interest charges on my Direct Unsubsidized Loans. If I fail to make required payments of interest before the beginning or resumption of principal repayment, or during a period of deferment or forbearance, I agree that ED may capitalize such interest, as provided under the Act. There is no federal interest subsidy on unsubsidized loans, so the total amount of interest I am required to repay on unsubsidized loans will be higher than on subsidized loans.

LOAN FEE

A loan fee is charged for each Direct Subsidized Loan and Direct Unsubsidized Loan equal to the amount required by the Act. I will pay such fee as identified in the disclosure statement, which will be deducted proportionately from each disbursement of my loans. I understand the loan fees may be refundable only to the extent permitted by the Act.

LATE CHARGES AND COLLECTION COSTS

ED may collect from me: (i) a late charge for each late installment payment if I fail to make any part of a required installment payment within 30 days after it becomes due, and (ii) any other charges and fees that are permitted by the Act for the collection of my loans. If I default on any loans, I shall pay reasonable collection fees and costs, plus court costs and attorney fees.

REPAYMENT

I am obligated to repay the full amount of the loans made under this Note and accrued interest. Direct Subsidized and Unsubsidized Loans have a repayment grace period of 6 months. I will repay the principal of my loans in periodic installments during repayment periods that begin on the day immediately following the end of the applicable grace period. Payments submitted by me or on my behalf (exclusive of refunds) will be applied first to charges and collection costs that are due, then to accrued interest that has not been capitalized, and finally to the principal amount. I understand that the School's certification of my loan eligibility determines whether my loans must be repaid as subsidized and/or unsubsidized Direct Loans.

The Direct Loan Servicing Center will provide me with a repayment schedule that identifies my payment amounts and due dates. **Direct Loan repayment information is covered in the Borrower's Rights and Responsibilities statement.**

If I am unable to make my scheduled loan payments, ED may allow me to reduce my payment amount, to extend the time for making payments, or to temporarily stop making payments as long as I intend to repay my loan. Allowing me to temporarily delay or reduce loan payments is called forbearance.

I agree that ED may align payment dates on my loans or may grant me forbearance to eliminate a delinquency that persists even though I am making scheduled installment payments.

I may prepay all or any part of the unpaid balance on my loans at any time without penalty. If I do not specify which loans I am prepaying, ED will determine how to apply the prepayment in accordance with the Act. Upon repayment in full of each loan under this Note, I agree to accept written notification of such loan payoff in place of receiving the original Note.

ACCELERATION AND DEFAULT

At the option of ED, the entire unpaid balance of the applicable loans shall become immediately due and payable upon the occurrence of any one of the following events: (i) I fail to enroll as at least a half-time student at the School that certified my loan eligibility, (ii) I fail to use the proceeds of the loans solely for educational expenses, (iii) I make a false representation(s) that results in my receiving any loans for which I am not eligible, or (iv) I default on the loans.

The following events shall constitute a default on my loans: (i) I fail to pay the entire unpaid balance of the applicable loans after ED has exercised its option under items (i), (ii), and (iii) in the preceding paragraph; (ii) I fail to make installment payments when due, provided my failure has persisted for at least 270 days; or (iii) I fail to comply with other terms of the loans, and ED reasonably concludes I no longer intend to honor my repayment obligation. If I default, ED may capitalize all the outstanding interest into a new principal balance, and collection fees will become immediately due and payable.

If I default, the default will be reported to all national credit bureau organizations and will significantly and adversely affect my credit history. I acknowledge that a default shall have additional adverse consequences to me as disclosed in the Borrower's Rights and Responsibilities statement. Following default, the loans may be subject to income-contingent repayment (including potential collection of amounts in excess of the principal and interest) in accordance with the Act.

GOVERNING LAW AND NOTICES

The terms of this Note will be interpreted in accordance with the Higher Education Act of 1965, as amended (20 U.S.C. 1070 et seq.), and other applicable federal statutes and regulations.

Any notice required to be given to me will be effective if mailed by first class mail to the latest address ED has for me. I will immediately notify ED of a change of address or status as specified in the Borrower's Rights and Responsibilities Statement.

Failure by ED to enforce or insist on compliance with any term on this Note shall not be a waiver of any right of ED. No provision of this Note may be modified or waived except in writing. If any provision of this Note is determined to be unenforceable, the remaining provisions shall remain in force.

Notice: Applicable to Loans Received After the Initial Enrollment Period

This Master Promissory Note authorizes ED to disburse multiple loans during the multi-year term of this Note upon my request and upon the School's certification of my loan eligibility.

Subsequent loans may be made under this Note for subsequent periods of enrollment only at four-year or graduate schools, or other schools, as designated by the Secretary of the U.S. Department of Education. I agree that no subsequent loans will be made under this Note after the earliest of the following dates: (i) the date ED receives my written notice that no further loans may be disbursed under the Note; (ii) one year after the date of my first anticipated disbursement on this Note if no disbursement is made during such twelve month period; or (iii) ten years after the date of the first anticipated disbursement made under this Note.

Any amendment to the Act governs the terms of any loans disbursed on or after the effective date of such amendment, and such amended terms are hereby incorporated into this Master Promissory Note.

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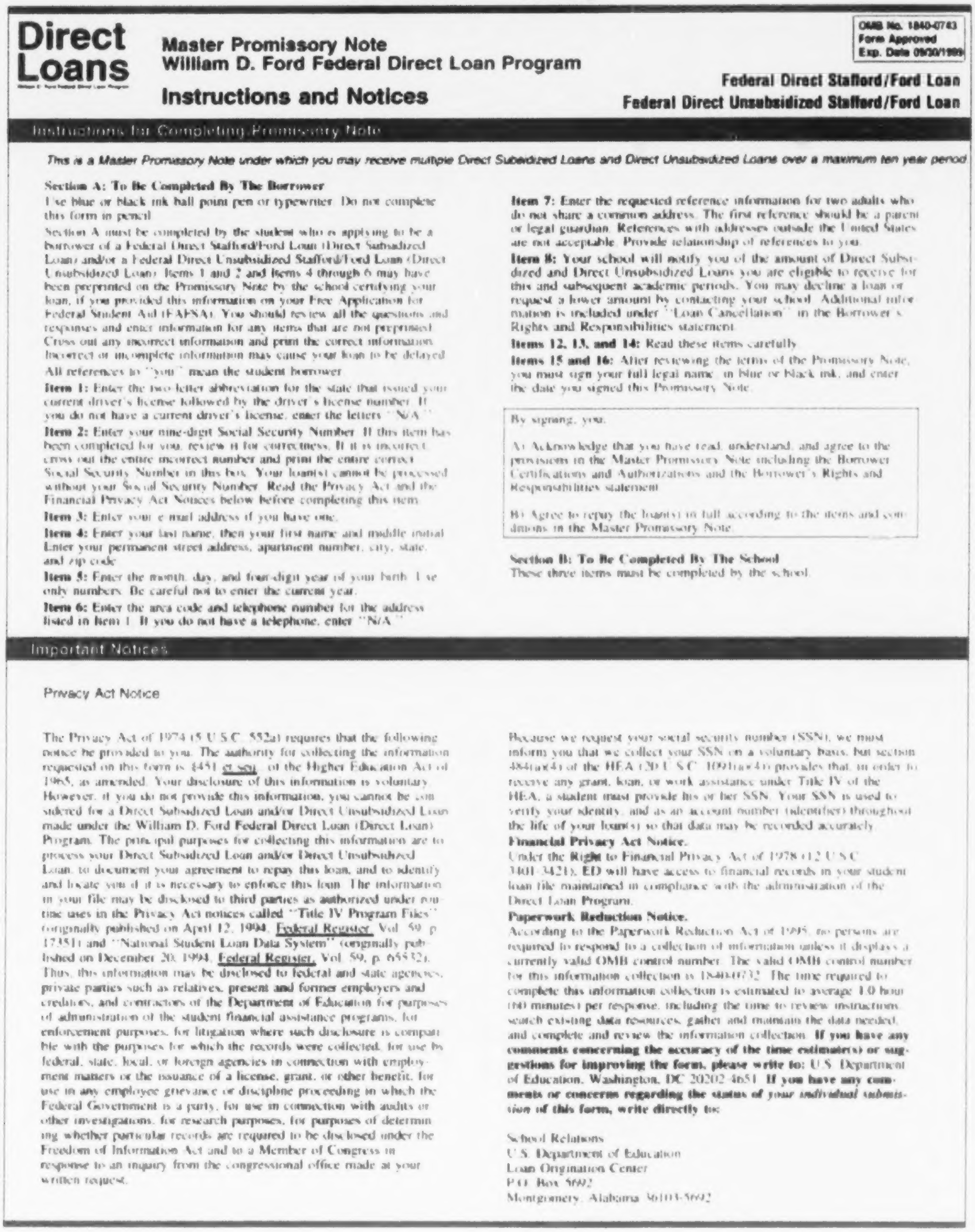

Direct Loans

Master Promissory Note
William D. Ford Federal Direct Loan Program

Instructions and Notices

OMB No. 1840-0743
Form Approved
Exp. Date 09/30/1999

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

Instructions for Completing Promissory Note

This is a Master Promissory Note under which you may receive multiple Direct Subsidized Loans and Direct Unsubsidized Loans over a maximum ten year period

Section A: To Be Completed By The Borrower
Use blue or black ink ball point pen or typewriter. Do not complete this form in pencil.

Section A must be completed by the student who is applying to be a borrower of a Federal Direct Stafford/Ford Loan (Direct Subsidized Loan) and/or a Federal Direct Unsubsidized Stafford/Ford Loan (Direct Unsubsidized Loan). Items 1 and 2 and Items 4 through 6 may have been preprinted on the Promissory Note by the school certifying your loan, if you provided this information on your Free Application for Federal Student Aid (FAFSA). You should review all the questions and responses and enter information for any items that are not preprinted. Cross out any incorrect information and print the correct information. Incorrect or incomplete information may cause your loan to be delayed.

All references to "you" mean the student borrower.

Item 1: Enter the two-letter abbreviation for the state that issued your current driver's license followed by the driver's license number. If you do not have a current driver's license, enter the letters "N/A."

Item 2: Enter your nine-digit Social Security Number. If this item has been completed for you, review it for correctness. If it is incorrect, cross out the entire incorrect number and print the entire correct Social Security Number in this box. Your loan(s) cannot be processed without your Social Security Number. Read the Privacy Act and the Financial Privacy Act Notices below before completing this item.

Item 3: Enter your e-mail address if you have one.

Item 4: Enter your last name, then your first name and middle initial. Enter your permanent street address, apartment number, city, state, and zip code.

Item 5: Enter the month, day, and four-digit year of your birth. Use only numbers. Be careful not to enter the current year.

Item 6: Enter the area code and telephone number for the address listed in Item 4. If you do not have a telephone, enter "N/A."

Item 7: Enter the requested reference information for two adults who do not share a common address. The first reference should be a parent or legal guardian. References with addresses outside the United States are not acceptable. Provide relationship of references to you.

Item 8: Your school will notify you of the amount of Direct Subsidized and Direct Unsubsidized Loans you are eligible to receive for this and subsequent academic periods. You may decline a loan or request a lower amount by contacting your school. Additional information is included under "Loan Cancellation" in the Borrower's Rights and Responsibilities statement.

Items 12, 13, and 14: Read these items carefully.

Items 15 and 16: After reviewing the terms of the Promissory Note, you must sign your full legal name, in blue or black ink, and enter the date you signed this Promissory Note.

> By signing, you:
>
> A) Acknowledge that you have read, understand, and agree to the provisions in the Master Promissory Note including the Borrower Certifications and Authorizations and the Borrower's Rights and Responsibilities statement.
>
> B) Agree to repay the loan(s) in full according to the items and conditions in the Master Promissory Note.

Section B: To Be Completed By The School
These three items must be completed by the school.

Important Notices

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Because we request your social security number (SSN), we must inform you that we collect your SSN on a voluntary basis, but section 484(a)(4) of the HEA (20 U.S.C. 1091(a)(4)) provides that, in order to receive any grant, loan, or work assistance under Title IV of the HEA, a student must provide his or her SSN. Your SSN is used to verify your identity, and as an account number (identifier) throughout the life of your loan(s) so that data may be recorded accurately.

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School Relations
U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, Alabama 36103-5692

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For 1999-2000, there are still three circumstances for which a student will have to sign more than one master promissory note.

- ✦ The borrower transfers to or enrolls in another school.
- ✦ The school makes more than four disbursements to a borrower for a single loan type (subsidized or unsubsidized).
  - ✧ As of February 2000, ED's software will accommodate up to 20 disbursements for each type of loan. Because of this, as of February 2000, a new master promissory note will no longer be required for each loan.
- ✦ The borrower progresses to a new borrower-based academic year.
  - ✧ A borrower-based academic year occurs when a student becomes eligible for a second annual loan because he or she completed one full academic year and is beginning a second academic year.

ED has prepared a "plain English" pamphlet, *The Inside Scoop for Borrowers: The New 1999-2000 Master Promissory Note for Direct Loan Borrowers*, to help schools explain the master promissory note process to students. Schools can order the pamphlet by calling the LOC at 1-800-848-0978.

Reference

- *The Inside Scoop for Borrowers: The New 1999-2000 Master Promissory Note for Direct Loan Borrowers*

☎ **Where to Call**

To order Direct Loan publications, call the LOC at 1-800-848-0978.

Application/Promissory Note (for Direct PLUS Loans)

Parents are allowed to borrow Direct PLUS Loans. To obtain a Direct PLUS Loan, a parent must complete and sign a combined application/promissory note.

The Direct PLUS Loan application/promissory note:

- ✦ collects demographic information, such as the borrower's (parent's) permanent address and the permanent address of the student for whom he or she is borrowing,
- ✦ states the loan amount for the loan period, and
- ✦ requires the borrower's signature.

A parent has to complete a new application/promissory note:

- ✦ for each loan period (often an academic year) and
- ✦ whenever the amount he or she wishes to borrow increases.

For Your Information

The loan period may be a semester or some other length of time, but it may not be more than an academic year.

However, a new promissory note is not needed if:

- a school or the LOC (depending on the school's origination option) has not yet printed the application/promissory note, or
- the Direct PLUS Loan amount decreases.
  - Reasons why the loan amount might decease are:
    - a parent might decide to borrow less than the amount on the application/promissory note or
    - the school finds the parent is eligible for less than the amount on the application/promissory note.

Borrower Activities

To obtain any Direct Loan, a borrower must sign a promissory note.

- Students (Direct Subsidized Loan borrowers and Direct Unsubsidized Loan borrowers) complete and sign master promissory notes.
- Parents (Direct PLUS Loan borrowers) complete and sign combined application/promissory notes.

For the remainder of this chapter, unless stated otherwise, the term "promissory note" refers to both master promissory notes and application/promissory notes.

The promissory note is the document that makes a borrower legally responsible for repaying his or her Direct Loan. To be a legal and binding document, a borrower must complete the promissory note correctly and sign it. If not, the LOC will reject the promissory note. This prevents a loan from being "booked" (becoming an official and binding obligation between the borrower and ED).

To assure that the LOC does not reject a promissory note, a borrower (student or parent) must:

- complete the Direct Loan promissory note in black or blue ink;

Take a Look

See Chapter 4 for details about origination options.

Take a Look

- See page 6-23 for details about master promissory notes for Direct Subsidized Loan and Direct Unsubsidized Loan .
- See page 6-32 for details about Direct PLUS Loan application/ promissory notes.

For Your Information

To book a Direct Loan, the LOC must receive and accept:

- a loan origination record,
- a completed and signed promissory note, and
- a disbursement record.

For Your Information

Standard-Origination-school borrowers mail their promissory notes to:

School Relations
U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, AL 36103-5692

- sign the promissory note in blue or black ink;
    - Signatures cannot be faxed, stamped, photocopied, or signed in pencil.
- if an error has been made on the promissory note, cross out the error, correct it, and initial the correction; and
- return the properly completed and signed promissory note to the organization that sent it (school or LOC).
    - The LOC address is on the back of the promissory note.

Borrowers Who are Minors

If a borrower of a Direct Subsidized Loan or a Direct Unsubsidized Loan is a minor (less than 18 years old), he or she may sign a promissory note without an endorser or other security. Furthermore, the borrower is obligated to repay the loan without regard to any state law that deals with minors taking on debt.

Take a Look

See Chapter 5 for details about Direct PLUS Loan eligibility requirements, including situations that require endorsers.

Borrowers Who Need Endorsers

If a Direct PLUS Loan requires an endorser, the parent borrower completes and signs an application/promissory note. The endorser does not. Instead, he or she completes and signs an endorser addendum to the Direct PLUS Loan promissory note. The endorser addendum obligates the endorser to repay the Direct PLUS Loan if the borrower does not.

School Activities

Laws & Regulations

- 34 CFR 685.301(b)(1)

A properly completed and signed promissory note is a prerequisite for a school to disburse Direct Loan funds. While no school can disburse Direct Loan funds without a borrower completing and signing a promissory note, the specific activities that a school undertakes in this part of the Direct Loan process depends on whether it is:

- a Standard Origination school,
- an Origination Option 1 school, or

- an Origination Option 2 school.

Chapter 4 provides in-depth information about school origination options.

Take a Look

See Chapter 4 for details about school origination options.

Standard Origination Schools

For a Standard Origination school, the LOC prints, distributes, and collects Direct Loan promissory notes from the school's borrowers. A Standard Origination school does not have the authority to perform these activities. Furthermore, it may not disburse Direct Loan funds until the LOC has:

- informed the school through a promissory note acknowledgment that the LOC has received and accepted a borrower's promissory note;
- requested Direct Loan funds from ED on the school's behalf; and
- forwarded to the school a disbursement roster that includes the borrower.

More information about the LOC's activities in the Direct Loan promissory note process begins on page 6-45. Chapter 7 explains how Direct Loan funds are requested (drawn down) and disbursed.

Take a Look

- See page 6-45 for details about the activities that the LOC performs.
- See Chapter 7 for details about drawing down and disbursing Direct Loan funds.

Origination Option 1 Schools and Origination Option 2 Schools

Origination Option 1 schools and Origination Option 2 schools have the authority to:

- print promissory notes
- send promissory notes to borrowers,
- collect completed and signed promissory notes from borrowers, and
- forward completed and signed promissory notes to the LOC.

However, if they choose, Origination Option 1 schools and Origination Option 2 schools can have the LOC perform any or all of these promissory note functions.

Example

An Origination Option 2 school's computer center is too busy to be timely in preparing borrowers' promissory notes. The school decides to have the LOC print the promissory notes and send them to the school to distribute and collect from borrowers. This way the school:

- ✓ removes an administrative responsibility that it would prefer not to handle, but
- ✓ continues to keep close track of when borrowers are returning the promissory notes.

A school that wants to have the LOC perform any of these functions writes to ED with its request.

- ✦ Chapter 4 provides more information on how schools can transfer certain administrative responsibilities to the LOC.

The remainder of this section explains what Origination Option 1 schools and Origination Option 2 schools do if they choose to print, send, collect, or forward Direct Loan promissory notes.

For Your Information

To transfer certain administrative functions to the LOC, Origination Option 1 schools and Origination Option 2 schools write to ED at

U.S. Department of Education
Institutional Participation & Oversight Service
Data Management & Analysis
Document Receipt & Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

Laws & Regulations

- 34 CFR 685.301(c)(1)

Printing Direct Loan Promissory Notes

Origination Option 1 schools and Origination Option 2 schools can:

- ✦ use blank promissory notes that ED supplies and schools complete manually;
- ✦ automatically print promissory notes with borrower-specific information; or
- ✦ request that the LOC print borrower-specific promissory notes.

ED-supplied, blank promissory notes. Schools can request blank promissory notes from ED. They are free of charge. Schools order the notes through the LOC. ED published ordering information in a Direct Loan Bulletin published as "Dear Colleague" Letter (DCL) DLB-99-19.

Reference

- Direct Loan Bulletin: DCL DLB-99-19

School-printed promissory notes. Schools have several options for printing their own borrower-specific promissory notes.

For example, a school that manages the Direct Loan Program using PCs or a combination of PCs and mainframe computers can print its own notes using EDExpress software and blank ED-supplied promissory notes (without labels).

- EDExpress is software for PCs that ED developed for schools to help them manage the Title IV federal student aid programs, including the Direct Loan Program. ED offers EDExpress free to schools.
- EDExpress is programmed to automatically print two copies of ED-approved promissory notes for each borrower.
    - One copy is for the borrower to keep; the other is for the borrower to complete, sign, and return to the school.
    - When a school receives a completed and signed promissory note, the school forwards it to the LOC.
    - The school is not required to keep a copy of the promissory note, although ED highly recommends that schools do so.

Alternatively, a school can use institutionally or privately developed software created on the basis of ED specifications in the *Direct Loan Technical Reference*. School-developed or vendor-developed software can:

Reference

- *Direct Loan Technical Reference*

- print on blank promissory notes supplied by ED or
- print the entire note itself.

A mainframe school can:

- use blank promissory notes supplied by ED (with or without labels) or
- print entire notes itself (including the legal information).

There are two restrictions for a school that creates promissory notes using this type of software:

- First, the software must print the entire promissory note in a way that is identical in format and wording to notes printed by ED and EDExpress.

For Your Information

Schools requesting approval for promissory notes printed by institutionally or privately developed software must send an original (not photocopied or faxed copy) with sample data to:

U.S. Department of Education
ATTN: Promissory Note Testing
P.O. Box 2132
Montgomery, AL 36102-2132

Where to Call

For questions about promissory note testing call:

- 1-800-848-0978.

- Second, the LOC must review and approve the promissory note before a school can use it.
  - The promissory note that a school sends to the LOC for approval must include sample data.
  - It must also be an original. Photocopies or faxed copies are not acceptable.
  - As already indicated, a school may not change the format or wording of the promissory note.
    - However, it may add a bar code, which some schools use for internal tracking purposes.
    - Adding a bar code does not require pre-approval by ED; however, the bar code cannot be placed in the bottom margin of the note, which is reserved for use by the LOC.

Take a Look

- See Chapter 3 for details about LOC customer service representatives (CSRs).
- See Appendix A for LOC contact information.

LOC-printed, borrower-specific promissory notes. Standard Origination schools must have the LOC print borrower-specific promissory notes. Origination Option 1 schools and Origination Option 2 schools can request that the LOC print borrower-specific promissory notes for them. They make this request by contacting their LOC customer service representative (CSR).

Sending Direct Loan Promissory Notes to Borrowers

As noted earlier, Origination Option 1 schools and Origination Option 2 schools have the authority to send promissory notes to borrowers. Schools use different approaches for this. For example, schools include promissory notes:

- with award letters,
- in a separate mailing, or
- as part of in-person entrance loan counseling.

Take a Look

See Chapter 7 for details about loan counseling.

No matter how a school decides to get a promissory note to a borrower, it should try to make the process as understandable as possible for the borrower. For example, clear directions about using ink, where to sign, and the importance of completing the form accurately make the process easier and faster for borrowers, as well as for school staff.

Collecting Direct Loan Promissory Notes from Borrowers

Schools should be clear with borrowers about when they expect borrowers to return promissory notes. They should also have a thorough review procedure for completed and signed promissory notes to be sure that the notes are completed and signed properly. This is important because:

- The LOC will not draw down funds for any Standard Origination school or Origination Option 1 school until a promissory note has been accepted by the LOC.
    - When a promissory note is not completed correctly or not signed, the LOC will reject the note.
    - An LOC rejection will delay disbursement to a borrower because of the time required to make corrections and send promissory notes back to the LOC for approval.
- Although Origination Option 2 schools can draw down and disburse Direct Loan funds before receiving approval from the LOC, they are not allowed to disburse the funds before they have collected properly completed and signed promissory notes.
    - An Origination Option 2 school that disburses Direct Loan funds to a borrower without a correctly completed and signed promissory note is liable to ED for the funds disbursed.
    - The school would also be liable if it disbursed Direct Loan funds on the basis of a promissory note that was not properly completed and signed.
    - As a result, some Origination Option 2 schools choose to send promissory notes to the LOC and wait for approval from the LOC before disbursing Direct Loan funds.

The guidelines on the following pages should help schools review completed and signed promissory notes they receive from the borrowers. Using the guidelines should minimize the number of promissory notes rejected by the LOC.

Laws & Regulations

- 34 CFR 685.301(b)(1)

Take a Look

See Chapter 7 for details about drawing down and disbursing Direct Loan funds.

1999-2000 Direct Subsidized Loan and Direct Unsubsidized Loan Promissory Note Review/Acceptance Guidelines

SECTION A: TO BE COMPLETED BY THE BORROWER			
Form Label/Position	*Valid Values*	*Alterations?*	*Required?*
1. Driver's License State and Number	May be left blank. If either license number or state is present, both must be on the promissory note.	Yes, with initials	No
2. Social Security No.	Borrower's Social Security number	Yes, with initials	Yes
3. E-mail address	Student borrower's current e-mail address. May be blank.		No
4. Name and Address (street, city, state, zip code)	Must have first and last name. Middle initial is optional.	Yes, with initials	Yes
4. Name and Address (continued)	Student borrower's permanent street address **OR** student's local street address. May be blank.	Yes	No
4. Name and Address (continued)	Student borrower's permanent city, state, and zip code **OR** student borrower's local city, state, and zip code. Must have city, state, and zip. If foreign country, zip must be blank.	Yes	Yes
5. Date of Birth	Borrower's date of birth in month, day, year order	Yes	Yes
6. Area Code/ Telephone No.	Student borrower's permanent telephone no. 10-digit telephone number (includes area code.)	Yes	No
7. References	2 references – name, address, phone number, relationship to the borrower.	Yes	No
8. *Label is preprinted; no label to be printed*	Requested loan amount	Yes, with initials	No
15. Borrower's Signature & Date	Signature should match the name in item # 4, with the following exceptions: middle initial may be omitted in the signature, and an obvious derivative of the first or middle name may be used (for example, William/Bill, Richard/Dick).	No alterations are permitted on the borrower's signature; however, date may be altered or blank. Signature must be in blue or black ink. "X" signature/disabled borrowers may show their symbol, including "X" for a signature. However, ED requests that the school official provide a statement on school letterhead indicating that the symbol is the signature of the borrower.	Yes

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SECTION B: TO BE COMPLETED BY THE SCHOOL			
Form Label/Position	*Valid Values*	*Alterations?*	*Required?*
9. School Name and Address	School name	Yes, with school official's initials	Yes
	Address	Yes, with school official's initials	No
	School' s city, state, and zip code	Yes, with school official's initials	Yes
10. School Code/ Branch	Direct Loan School Code	Yes	Yes
11. Identification No.	Loan ID of one of the loans associated with this master promissory note. Must be a valid XX-character field.	Yes, with school official's initials (only last 2 digits may be modified)	Yes

Additional reasons for promissory note rejection:

- Promissory note text or signature altered
- Signed date on promissory note is after the expiration date on the form
- Promissory note marked "copy" or "non-negotiable"

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1999-2000 Federal Direct PLUS Loan Promissory Note Review/Acceptance Guidelines

SECTION A: TO BE COMPLETED BY THE BORROWER			
Form Label/Position	*Valid Values*	*Alterations?*	*Required?*
1. Identification No. (a)	Loan ID Promissory note print sequence #		
2. Social Security No.	Borrower's current SSN	Yes, with borrower's initials	Yes
3. Loan Amt. Requested	Loan amount requested by the borrower	Yes, with borrower's initials. Changing the loan amount requested from blank to zero to an amount is not considered an alteration.	Yes
4. Date of Birth	Borrower's date of birth, in MM/DD/YYYY format.	Yes	Yes
5. U.S. Citizenship Status (Check one)	Citizenship status Alien registration number	Yes, with initials	Yes If "Permanent resident/other eligible alien" is selected, the Alien Registration # must be present. If "Neither" is selected, the note will reject.
6. Name and Address	Borrower's last name, first name, middle initial. Middle initial is optional.	Yes, with initials	Yes
6. Name and Address	Borrower's permanent or local street address	Yes	No
6. Name and Address	Borrower's permanent or local city, state, and zip code. If foreign country, zip code must be blank.	Yes	Yes
7. Driver's License (State-No.)	Borrower's driver's license state and number. May be blank. If either the license number or state is present, both must be on the promissory note.	Yes	No
8. Area Code/ Telephone No.	Borrower's permanent telephone number	Yes	No
9. Loan Period	Loan period start date (MM/DD/YYYY) and loan period end date (MM/DD/YYYY)	Yes, with initials	Yes
Borrower's Signature	Signature should match the name in item # 6, with the following exceptions: middle initial may be omitted in the signature, and an obvious derivative of the first or middle name may be used (for example, William/Bill, Richard/Dick).	No alterations are permitted on the borrower's signature; however, date may be altered or blank. Signature must be in blue or black ink. "X" signature/disabled borrowers may show their symbol, including "X" for a signature. However, ED requests that the school official provide a statement on school letterhead indicating that the symbol is the signature of the borrower.	Yes

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SECTION B: TO BE COMPLETED BY THE SCHOOL

Form Label/Position	*Valid Values*	*Alterations?*	*Required?*
10. School Name and Address	School name	Yes, with school official's initials	Yes
	School's street address	Yes	No
	School' s city, state, and zip code	Yes, with school official's initials	Yes
11. Loan Period	Loan period start date (MM/DD/YYYY) and loan period end date (MM/DD/YYYY)	Yes, with initials	Yes
12. School Code/ Branch	Direct Loan school code	Yes	Yes
13. Certified Loan Amount			
14. Anticipated Disbursement Dates	Must include at least two disbursements that fall within the loan period	Yes, with school official's initials	Yes

SECTION C: TO BE COMPLETED BY THE STUDENT

Form Label/Position	*Valid Values*	*Alterations?*	*Required?*
15. Name	Student's last name, first name, and middle initial. Middle initial is optional.	Yes, with initials	Yes
16. Social Security No.	Student's current SSN	Yes	Yes
17. U.S. Citizenship Status	Student's citizenship status	Yes, with initials	Yes
	Student's alien registration number		If "Permanent resident/ other eligible alien" is selected, the Alien Registration # must be present. If "Neither" is selected, the note will reject.
18. Student's Date of Birth	Student's date of birth (MM/DD/YYYY)	Yes	No

Additional reasons for promissory note rejection:

- Promissory note text or signature altered
- Signed date on promissory note is after the expiration date on the form
- Promissory note marked "copy" or "non-negotiable"

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Forwarding Direct Loan Promissory Notes to the Loan Origination Center

Direct Loan regulations require schools that originate loans to provide ED with "an executed, legally enforceable promissory note as proof of the borrower's indebtedness." In practice, this means that Origination Option 1 schools and Origination Option 2 schools must send properly completed and signed promissory notes to the LOC.

With each shipment (batch) of promissory notes, schools must include a paper promissory note manifest.

- The manifest is a transmittal form that identifies the promissory notes in the batch by listing borrowers' names and loan ID numbers.
- ED has a specific format for the manifest.
  - EDExpress conforms with the format.
  - Schools that use institutionally or privately developed software must be sure that the manifests follow ED specifications, which are published in the *Direct Loan Technical Reference.*

Master promissory notes (for student Direct Subsidized Loans and Direct Unsubsidized Loans) and application/promissory notes (for parent Direct PLUS Loans) must be batched separately with a separate promissory note manifest for each batch. Separate promissory note batches and manifests are also required for each school code at a school. For example, a school may use a different school code for branch campuses or programs, such as law and medicine.

ED suggests that schools send promissory notes batches to the LOC by certified mail (return receipt requested) or by express mail service. This provides schools with a way to track down batches if they're lost in the mail.

Schools do not have to keep copies of promissory notes. However, they may want to keep copies of promissory notes until the LOC accepts them. Schools do not have responsibility for promissory notes after they are accepted by the LOC.

Laws & Regulations

- 34 CFR 685.301(c)(2)

Reference

- *Direct Loan Technical Reference*

For Your Information

Origination Option 1 schools and Origination Option 2 schools send promissory notes and promissory note manifests to the following addresses:

- By regular mail:
  U.S. Department of Education
  Loan Origination Center
  P.O. Box 5692
  Montgomery, AL 36104
- By overnight mail:
  U.S. Department of Education
  Loan Origination Center
  474 South Court Street, Suite 400
  Montgomery, AL 36104

Loan Origination Center Activities

The LOC is responsible for assuring that promissory notes are properly completed and signed so that they are legally binding documents that require borrowers to repay their Direct Loans. As a result, after thorough review of the document, the LOC decides whether to accept (approve) or reject a promissory note.

As noted earlier, an LOC-accepted promissory note is one of three prerequisites for booking a loan.

- Once a loan is booked:
  - the loan becomes a legal and binding obligation between the borrower and ED, and
  - the LOC transfers the loan to ED's Direct Loan Servicing Center (DLSC), which handles repayments, deferments, forbearance, collections, and other back-end processes.

Take a Look

See Chapter 12 for details about DLSC responsibilities.

Printing, Distributing, and Collecting Promissory Notes

The LOC prints, distributes, and collects promissory notes from students and parents borrowing Direct Loans to pay for education costs at Standard Origination schools.

Although Origination Option 1 schools and Origination Option 2 schools have the authority to print, distribute, and collect promissory notes, they can choose to request that the LOC perform any or all of these functions for them.

Take a Look

See page 6-36 for details about how schools can opt to print, distribute, and collect promissory notes.

Reviewing Promissory Notes

The LOC receives completed and signed promissory notes from two sources:

- borrowers (students and parents) and
- schools.

Borrowers will send promissory notes directly to the LOC for attendance at:

- Standard Origination schools or
- Origination Option 1 schools and Origination Option 2 schools that choose to have the LOC collect promissory notes.

For promissory notes that the LOC receives directly from borrowers, the LOC reviews the notes for completeness and signatures. If there is a problem with a promissory note, the LOC works directly with the borrower to correct the problem.

For promissory notes that the LOC receives directly from schools, the LOC reviews promissory note batches (shipments from Origination Option 1 schools and Origination Option 2 schools) against the promissory note manifests that accompany them. It compares the promissory notes in the batches with the listings on the manifests.

Take a Look

See page 6-44 for details about promissory note manifests.

- If there are no discrepancies between a batch and its manifest, an LOC representative signs the manifest and returns it to the school.
- If there are discrepancies, an LOC representative also signs the manifest and returns it to the school.
    - However, in this case, the manifest will identify what the discrepancies are. For example:
        - a promissory note that's in the batch might not be listed on the manifest or
        - the manifest might list a promissory note that isn't in the batch.

Take a Look

See page 6-49 for details about promissory note acknowledgments.

After reviewing each promissory note, the LOC accepts it, rejects it, or holds it as "pending." In each case, the LOC sends a promissory note acknowledgment to the school.

Accepted Promissory Notes

The LOC will accept a promissory note if:

- the borrower has correctly completed and signed it, and
- the school has forwarded a loan origination record for the loan and the LOC has accepted it.

When the LOC accepts a promissory note, it means that ED accepts responsibility for the loan. Liability transfers to ED at the time a loan is booked. The school is no longer responsible for the note once it is accepted. Because of this, it may retain or destroy any copies of the promissory note it has on file.

The LOC lets a school know when a promissory note is accepted by forwarding a promissory note acknowledgment to the school.

Rejected Promissory Notes

The LOC will reject a promissory note if the note has missing items, contains mistakes, or does not have an LOC-accepted loan origination record in the LOC's database. A complete list of rejection reasons are in ED's *Direct Loan Technical Reference*. Here is a partial list of reasons for the LOC rejecting a promissory note:

- The promissory note doesn't match the loan origination record.
- The loan ID number is invalid or missing.
- The promissory note doesn't have an original signature. (This means that a photocopy or faxed copy of the promissory note is not acceptable.)
- The borrower altered the promissory note text or signature.
- The borrower completed the promissory note in pencil instead of in ink.

Reference

- *Direct Loan Technical Reference*

When the LOC rejects a promissory note, depending on who sent it, the LOC will return the note to:

- the borrower (at Standard Origination schools) or
- the school (at Origination Option 1 schools or Origination Option 2 schools).

The LOC also sends the school (regardless of loan origination status) a promissory note acknowledgment with information indicating the reason for the rejection.

- If the LOC returns a promissory note to a borrower, it will work directly with the borrower to be sure that he or she corrects the problem(s) and sends the promissory note back to the LOC.

- If the LOC returns a promissory note to a school, the school works with the borrower to correct the problem(s).
    - In this case, once the borrower completes the promissory note, he or she sends it to the school, and the school returns it to the LOC.

Corrections to rejected promissory notes can often be made on the existing promissory note, although a borrower may have to initial changes.

- However, there are circumstances when the school or the LOC (depending on the school's origination status) has to reprint the promissory note for the borrower to complete and sign again.
- Promissory notes must be reprinted if:
    - the signed date on the promissory note is after the form's expiration date,
    - the promissory note is marked "copy" or "non-negotiable,"
    - the citizenship of the borrower is marked as an ineligible non-citizen, or
    - the text of the promissory note or the signature on it is altered.

In most other circumstances, changes can be made, then initialed, on the existing promissory note.

To reduce the incidence of rejections, schools might want to maintain a log of the reasons they have promissory notes rejected and use this information to improve the school's instructions to borrowers, as well as its own promissory note review process.

- The promissory note review guidelines charts that begin on page 6-40 should also help.

Take a Look

See pages 6-40 through 6-43 for promissory note review guidelines charts.

Pending Promissory Notes

Sometimes the LOC receives a promissory note and holds it without accepting the note or, technically speaking, without rejecting it. In this case, the promissory note is pending. This happens when:

- a school has not forwarded a loan origination record to the LOC, or

- the school forwarded the loan origination record to the LOC but the LOC rejected it.

In these situations, the LOC will keep the promissory note on file until it receives and accepts a corresponding loan origination record. The LOC will also let the school know that the promissory note is pending through a promissory note acknowledgment. When the LOC can accept the promissory note, it will send the school another promissory note acknowledgment showing that it has accepted the note.

Promissory Note Acknowledgment

The LOC sends promissory note acknowledgments to schools for all promissory notes it receives, whether from borrowers or schools. The promissory note acknowledgment is an electronic record that lets a school know whether a promissory note has been accepted, has been rejected, or is pending. Once a school receives a promissory note acknowledgment, it takes action accordingly.

- For an accepted promissory note, a school does not need to take any action. The process has been completed.
- For a promissory note that is rejected, a school contacts the borrower to help him or her correctly complete the promissory note.
  - If the school is a Standard Origination school, the borrower returns the corrected promissory note to the LOC.
  - If the school is an Origination Option 1 school or an Origination Option 2 school, it returns the corrected promissory note to the LOC.
- For a pending promissory note, a school does not need to take any action.
  - However, the school may want to find out what happened to the loan origination record. For example:
    - Did the school send the loan origination record to the LOC?
    - Did the LOC reject the loan origination record?
    - Was a rejected loan origination record corrected and sent as a change record to the LOC?

Direct Loans

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

Drawing Down and
Disbursing
Direct Loan Funds

School Guide

Chapter 7:
Drawing Down and Disbursing Direct Loan Funds

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Chapter 7

Drawing Down and Disbursing Direct Loan Funds

Schools draw down Direct Loan funds from the U.S. Department of Education (ED) and disburse the funds to borrowers (students and parents). This chapter provides an overview and more detailed information about both drawdowns and disbursements.

Overview of Drawdown and Disbursement Processes

Direct Loan schools exchange information electronically with ED's systems to draw down and disburse Direct Loan funds. The specific procedures may vary somewhat from school to school depending on a school's origination option and other factors, such as a school's internal processing schedule. However, ED has a general framework for all schools for drawing down and disbursing funds.

- Depending on a school's origination option, the school or ED's Loan Origination Center (LOC) submits an electronic drawdown request to ED's Grant Administration and Payment System (GAPS).
- GAPS processes the request and forwards it to the Federal Reserve Bank (FRB).
- The FRB forwards the money electronically to the school's federal bank account.
- GAPS notifies the LOC of the amount and date of the drawdown.

For Your Information

This chapter is based on Title IV cash management requirements in 34 CFR 668, Subpart K, as well as Direct Loan requirements for disbursing Direct Loan funds.

- Other cash management requirements, such as how to deal with excess cash, are addressed in Chapter 10.
- *The Blue Book*, an ED publication for school fiscal officers, is a good source for extensive information about all Title IV cash management requirements.

Take a Look

See Chapter 4 for details about origination options.

- The school disburses the money to the borrower.
  - Often this means crediting the Direct Loan funds to the student's tuition account. When funds are disbursed in this manner, the school must notify the borrower (student or parent) that the account has been credited.
  - If a student is a first-time borrower, the school must conduct entrance loan counseling before beginning to disburse the loan.
- The school sends an electronic disbursement record to the LOC.
- The LOC accepts or rejects the disbursement record and sends an electronic disbursement acknowledgment to the school. If the disbursement is accepted, the LOC may or may not book the loan.
  - A loan is booked when the LOC has received and accepted:
    - a loan origination record,
    - a completed and signed promissory note, and
    - a disbursement record.
  - Once the loan is booked, the LOC transmits the loan information to ED's Direct Loan Servicing Center (DLSC), and the DLSC sends a welcome letter to the borrower.

Drawing Down Direct Loan Funds

Drawing down Direct Loan funds consists of three basic steps:

- calculating the school's need for Direct Loan funds,
- making the request, and
- receiving the funds.

Depending on a school's origination status, the school or the LOC calculates the school's need for Direct Loan funds and makes the request to draw down Direct Loan funds from GAPS.

For Your Information

Direct Loan schools assume several important responsibilities after drawing down federal funds. For example:

- Schools must disburse or return all federal funds. Schools are not allowed to maintain excess cash in their account for longer than the periods outlined in cash management regulations.
- They must also reconcile their records with ED's on a monthly and annual basis.

These responsibilities are discussed in Chapter 9 and Chapter 10.

Calculating and Requesting Direct Loan Funds

The LOC calculates the amount and timing for drawing down Direct Loan funds for Standard Origination schools and Origination Option 1 schools. The LOC also makes the requests for Direct Loan funds on behalf of these schools to GAPS.

Origination Option 2 schools calculate for themselves how much to draw down in Direct Loan funds. The schools determine the amount they need and when the funds should arrive. They then make requests for Direct Loan funds directly to GAPS.

Standard Origination and Origination Option 1 Schools

The LOC requests Direct Loan funds only for eligible borrowers (students or parents) for whom it has received and accepted:

- loan origination records and
- completed and signed promissory notes.

Requested funds are:

- based on anticipated disbursement amounts and dates included in the loan origination records the school created and sent to the LOC and
- borrower-specific and for exact amounts.

The LOC requests Direct Loan funds for Standard Origination schools and Origination Option 1 schools using a process and a schedule that minimizes schools ending up with excess cash.

- Generally, excess cash occurs when a school receives Title IV funds and it does not disburse them within three business days of having received the funds.
- There are number of reasons why a school might not disburse funds, such as a borrower no longer being eligible for a Direct Loan or a borrower deciding to reduce the amount of his or her Direct Loan.

Take a Look

- See page 7-10 for details about disbursements.
- See Chapter 6 for details about loan origination records.
- See Chapter 10 for details about excess cash and other cash management requirements.

Laws & Regulations

- 34 CFR 668.166(a)(1)

For Your Information

If excess cash tolerance requirements in 34 CFR 668.166(b) are met, a Standard Origination or Origination Option 1 school may retain undisbursed funds for an additional seven calendar days beyond the initial three business days after receiving the funds if the school expects to disburse the funds to the borrower for whom the money was intended within the seven-day period.

Approximately 30 to 45 days before the anticipated disbursement date listed in the loan origination records forwarded by a school, the LOC sends an electronic Anticipated Disbursement Listing to a Standard Origination or Origination Option 1 school. The listing includes:

- ✦ the names of borrowers for whom the LOC has received and accepted loan origination records and promissory notes,
- ✦ the specific loan identifiers (IDs) to be disbursed (Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans),
- ✦ anticipated disbursement amounts, and
- ✦ anticipated disbursement dates.

The school is not allowed to disburse Direct Loan funds to borrowers from this listing. Instead, it reviews the Anticipated Disbursement List to find out if adjustments need to be made, particularly to the anticipated disbursement amounts and anticipated disbursement dates.

Take a Look

See Chapter 8 for details about change records.

- ✦ If there are changes, the school informs the LOC by electronically transmitting change records. Examples of changes include:
  - ◇ A borrower becomes ineligible for a Direct Loan.
  - ◇ A borrower decides to reduce the amount he or she is borrowing, thus reducing the amount of the disbursement.
  - ◇ A borrower is still eligible for a Direct Loan, but the disbursement date is delayed.

For Your Information

If the LOC receives and accepts a loan origination record and a signed promissory note within 15 days of a disbursement, the loan might not appear on the Anticipated Disbursement Listing.

- **However, the LOC will request funds for this loan four days before the anticipated disbursement date.**
- **This loan should appear on the Actual Disbursement Roster.**

Four days before the anticipated disbursement date, the LOC requests that GAPS make Direct Loan funds available to the school. The amount requested and the timing are based on the anticipated disbursement amounts and disbursement dates in the loan origination records and change records. At the same time, the LOC electronically creates and sends an Actual Disbursement Roster to the school.

- ✦ The Actual Disbursement Roster notifies the school that:
  - ◇ the LOC has requested Direct Loan funds for the borrowers listed on the roster, and
  - ◇ the funds will arrive in the school's federal bank account within three to four days.

Take a Look

See Chapter 10 for details about schools' federal bank accounts.

- The Actual Disbursement Roster lists individual borrowers, loan types, actual disbursement amounts for each loan, and the total amount of funds requested.

The anticipated disbursement dates that a school enters into its loan origination records dictate when the LOC calculates and requests Direct Loan funds. As a result, a school can control the timing of drawdowns by its choice of anticipated disbursement dates.

- Although schools have considerable latitude in choosing anticipated disbursement dates, these dates must conform to disbursement requirements.

Take a Look

See page 7-10 for details about disbursement requirements.

Origination Option 2 Schools

Origination Option 2 schools are authorized to draw down funds directly from GAPS. Unlike Standard Origination schools and Origination Option 1 schools, Origination Option 2 schools can request Direct Loan funds on the basis of estimates rather than borrower-specific disbursement amounts.

- The estimates must reflect a school's "immediate need" for Direct Loan funds.
    - Immediate need is defined as the amount the school needs to disburse to its borrowers within three business days beginning from the date the school receives the funds.
    - Funds that are not disbursed within the three-day period are considered to be excess cash.
    - The three-day requirement is part of the regulatory cash management regulations that apply to all Title IV federal student financial aid programs, including the Direct Loan Program.

Laws & Regulations

- 34 CFR 668.14(b)(2)

Take a Look

See Chapter 10 for details about excess cash and other cash management requirements.

Estimating Drawdown Requests

When an Origination Option 2 school estimates its drawdown request for Direct Loan funds, it must take into account:

- how much the school plans to disburse in Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans; and
- the amount of Direct Loan funds the school has on hand from Direct Loan funds the school received (drew down) but did not disburse from the previous request.

Take a Look

- See Chapter 2 for details about Direct Loan fees.
- See Chapter 5 for details about borrower eligibility requirements.

In addition, the request for funds must be net of (minus) the 3 percent loan fee assessed by ED to students who borrow Direct Loans or the 4 percent loan fee assessed by ED to parents who borrow Direct PLUS Loans.

ED also suggests that Origination Option 2 schools consider the following when estimating immediate need for drawing down Direct Loan funds:

- Is the borrower eligible to receive a Direct Loan? For example:
    - Is there a hold on a student's school tuition account?
    - Is the student making satisfactory academic progress?
    - Has the student's enrollment status changed?
    - Does the school have a properly completed and signed promissory note?
- Is the school basing the request on anticipated disbursement amounts or actual amounts already disbursed using the school's own funds?
    - If the school requests Direct Loan funds on the basis of anticipated disbursements, does this often result in excess cash (funds the school does not disburse)?
    - If the school requests Direct Loan funds on the basis of actual disbursements, does "fronting" its own funds until ED forwards the Direct Loan funds put the school in a difficult cash flow position?
- To project future cash needs, does the school look at its historical trends for requesting Direct Loan funds? For example:
    - Does the school chart how much it requests compared to how much it actually spends?

- How much did the school request last year at this time?
- Was the request sufficient to cover actual disbursements?
- Was the request more than the school needed to cover disbursements?

Origination Option 2 schools may use EDExpress (ED's free PC software) or a privately developed software application or mainframe system to calculate how much to request for each drawdown. In any of these cases, schools sometimes find that computer-generated calculations are too high or too low. They, therefore, adjust their estimates before sending a drawdown request to ED.

- Reasons for adjusting computer-generated calculations include school historical trends or other information that suggests that more or less Direct Loan funding probably will be needed at a particular point in an academic year.
  - For example, a school with a history of having a number of students withdraw within a few weeks of registration might find that the drawdown calculation is too high.
  - Similarly, a school that is expecting more signed promissory notes to arrive from borrowers could find that the drawdown calculation seems too low.

Sending Drawdown Requests to GAPS

As noted earlier, Origination Option 2 schools request Direct Loan funds directly (and electronically) from GAPS:

- through the Internet (http://gapsweb.ed.gov) or
- by calling toll-free 1-888-336-8930.

GAPS verifies that the GAPS user ID and password for the individual making the request on behalf of the school are valid. If the GAPS user ID or password are invalid, GAPS will not authorize the individual to make a payment request.

Web site

- http://gapsweb.ed.gov

☎ **Where to Call**

GAPS toll-free number for making drawdown requests is 1-888-336-8930

When there are problems with a drawdown request, it usually happens because ED has flagged a school's Direct Loan GAPS account for review when a drawdown request is made. This might be the case if a school is on the reimbursement payment method or if it has been having difficulty estimating accurate drawdown amounts.

Once the payment request is authorized by GAPS, GAPS transmits the Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT) payment file to the Federal Reserve Bank (FRB), which is responsible for transferring Direct Loan funds to the school.

Timing Drawdown Requests

Generally, the turnaround between the time an Origination Option 2 school's drawdown request goes to GAPS and the time it receives the funds from the FRB is 48 to 72 hours. GAPS has a 3:30 pm (ET) cutoff for school requests. The following chart shows when a school can expect to receive requested funds.

Timeline* for Drawing Down Direct Loan Funds Using ACH/EFT

When School Submits a Drawdown Request	When School Receives Direct Loan Funds
Monday morning	Wednesday or Thursday
Monday afternoon/Tuesday morning	Thursday or Friday
Tuesday afternoon/Wednesday morning	Friday or Monday
Wednesday afternoon/Thursday morning	Monday or Tuesday
Thursday afternoon/Friday morning	Tuesday or Wednesday
Friday afternoon/Monday morning	Wednesday or Thursday

* The Deposit Date field in the GAPS request screen is an *estimated* deposit date. Schools should be able to gauge what their timing will usually be after making several drawdowns to their bank account. Schools using FEDWIRE might be able to receive funds in less than 24 hours. The GAPS Web page gives more detailed timing information.

Receiving Direct Loan Funds

All Direct Loan schools receive Direct Loan funds the same way. After GAPS processes drawdown requests, whether they come from a school or the LOC, GAPS forwards an ACH/EFT payment file to the FRB. The FRB wires the Direct Loan funds to a federal bank account that the school must maintain for receiving and disbursing Title IV federal student aid funds. (This is a cash management requirement.)

- A school is allowed to use a single bank account for all Title IV funds, including Direct Loan funds. The school must be able to identify which funds belong to the Direct Loan Program.
  - ED, however, recommends establishing a separate federal bank account to receive Direct Loan funds.
  - A separate bank account makes it easier for a school to keep track of and reconcile Direct Loan funds.

On occasion, the transmission wiring Direct Loan funds to a school does not go through. These are called "rejected transmissions." Transmissions are rejected when there are technical difficulties or when a school changes its designated bank account without informing ED.

- If a school changes its designated bank account, it should send an SF1199A direct-deposit form to ED.

No matter what the cause, ED contacts a school whenever there is a problem wiring Direct Loan funds.

Take a Look

See Chapter 10 for details about cash management requirements, including maintaining a federal bank account.

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Disbursing Direct Loan Funds

Laws & Regulations

- 34 CFR 668.164(a)

Except when a disbursement otherwise is prohibited, a disbursement occurs when a school credits a student's account or pays a borrower directly with Direct Loan funds or with institutional funds used in advance receiving Direct Loan funds.

Separation of Functions

Laws & Regulations

- 34 CFR 668.16(c)(2)

The Title IV General Provisions regulations require that schools separate the functions of authorizing payments to students and disbursing payments to students. This applies to the Direct Loan Program.

- At many schools, the financial aid office is responsible for authorizing payments while the business office handles disbursements, but specific organizational approaches vary from school to school.

Reference

- *The Blue Book*

The Blue Book, which is an ED publication that helps postsecondary school fiscal officers administer the Title IV programs, provides more information about separating payment authorization and disbursement responsibilities.

Completed and Signed Promissory Notes

Laws & Regulations

- 34 CFR 685.303(b)(1)

Before disbursing Direct Loan funds, a Direct Loan school must confirm that the borrower (student or parent) has properly completed and signed a promissory note.

- A Standard Origination school or an Origination Option 1 school is not allowed to disburse Direct Loan funds to a borrower until a completed and signed promissory note has been received by the LOC or the school respectively. Funds may not be drawn down, however, until the LOC:
  - forwards to the school an Actual Disbursement Roster that lists the borrower, the loan type, and loan amount to be disbursed; and
  - makes the drawdown request as listed in the Actual Disbursement Roster to GAPS on behalf of the school for the borrower.

Take a Look

See page 7-4 for details about Actual Disbursement Rosters.

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- An Origination Option 2 school has the authority to disburse Direct Loan funds to borrowers before sending completed and signed promissory notes to the LOC or before receiving an acknowledgment from the LOC that the promissory notes are accepted.
    - However, the school must have received a completed and signed promissory note from a borrower before making a disbursement. If this is not the case, the school assumes liability for the loan. For this reason, a number of Origination Option 2 schools choose to send completed and signed promissory notes to the LOC and wait for the LOC to accept the promissory notes before making disbursements to borrowers.
- When the LOC accepts promissory notes, it notifies schools through promissory note acknowledgments.

Take a Look

See Chapter 6 for details about Direct Loan promissory notes and promissory note acknowledgments.

Student Eligibility for Direct Loan Disbursements

Before disbursing Direct Loan funds to a student, a school must be sure that the student:

- has continually maintained eligibility from the beginning of the loan period (except for late disbursements and disbursements made after a school's loss of eligibility, which have different requirements), and
- still meets Title IV eligibility requirements, such as making satisfactory academic progress, not being in default on a federal education loan, and not owing an overpayment on a federal education grant or loan.

Laws & Regulations

- 34 CFR 685.303(b)(2)

Take a Look

See Chapter 5 for details about borrower eligibility.

Students Who Delay Attendance

If a student delays attending a school but begins attending within the first 30 days of the enrollment period, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

Laws & Regulations

- 34 CFR 685.303(b)(2)(ii)
- 34 CFR 685.303(b)(3)

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Students Who Withdraw Or Are Expelled Before the First Day of Classes

Take a Look

See Chapter 11 for details about SSCRs.

In certain circumstances, a school must notify ED of a change by sending enrollment status information about a student to the National Student Loan Data System (NSLDS) within 30 days of the change. This is the case if:

- a student withdraws or is expelled prior to the first day of classes of the period of enrollment for which the loan is made;
- a student fails to attend school during that enrollment period; or
- the school cannot document that a student attended school during that period.

This is part of the Student Status Confirmation Report (SSCR) process, which is described in Chapter 11.

Laws & Regulations

- 34 CFR 685.303(b)(3)

- In addition to reporting the student's change in enrollment status, the school must return any loan proceeds that were credited to the student's tuition account to ED or to the school's Title IV account.
- The school must also send ED the amount of any payments made to the student, up to the amount of the loan proceeds.
- Depending on when the money is returned, the school returns the funds to the LOC as excess cash, or it returns the funds to ED's Direct Loan Servicing Center (DLSC) as a prepayment on the student's account.
    - An Origination Option 2 school may disburse the funds to any other eligible student within cash management timelines.

Take a Look

See Chapter 10 for information about idle cash.

Students Temporarily Not Enrolled At Least Half Time

Laws & Regulations

- 34 CFR 685.303(b)(2)(iv)

If, on a temporary basis, a student ceases to be enrolled at least half time before the school makes a first Direct Loan disbursement, the school might still be able to disburse the funds when the student resumes enrollment if the following conditions exist:

- The student resumes enrollment on at least a half-time basis.
- The school has determined the student's revised cost of attendance.

- The school finds that the student is still eligible for the entire amount of the Direct Loan, even after revising the cost of attendance to reflect the temporary cessation of half-time enrollment.
- The school documents this information in the student's file.

Schools that Lose Eligibility to Participate in Title IV Programs

Laws & Regulations

- 34 CFR 685.303(b)(2)(iii)

If, after the first disbursement is made, a student becomes ineligible for Direct Loans solely because the school he or she attends loses its eligibility to participate in the Direct Loan Program or all the Title IV federal student financial aid programs, the school may make subsequent disbursements on the loan to the borrower if:

- the school's program participation ends during a period of enrollment;
- the school continues to provide educational programs to otherwise eligible students enrolled in the school's formerly eligible programs until the end of the period of enrollment;
- the loan was made for attendance during that period of enrollment; and
- the funds for the first disbursement were delivered to the student or credited to his or her account before the school's program participation ended.

Loan Counseling

Laws & Regulations

- HEA, Title IV, Part D
- 34 CFR 685.304

The Higher Education Act of 1965, as amended, (HEA) and Direct Loan regulations require schools that participate in the Direct Loan Program to provide entrance counseling and exit counseling to students who borrow Direct Loans.

- Schools are not required to offer loan counseling to parents who borrow from the Direct Loan Program.

Web site

- http://ed.gov.DirectLoan

ED provides Direct Loan schools with pamphlets, videos, and other materials to help financial aid administrators provide effective loan counseling. Information about these counseling materials is available on ED's Direct Loan Web site. This Web site also has online, interactive information for borrowers, including:

- a computer-assisted entrance counseling session, followed by a quiz, that meets regulatory requirements for conducting entrance loan counseling when schools document that students have completed the counseling requirements and that someone was available to answer borrowers' questions;
- a budget calculator, which helps borrowers estimate their income and expenses;
- a monthly repayment calculator, which estimates monthly payments so borrowers can compare the cost of different Direct Loan repayment plans; and
- a Direct Consolidation Loan calculator, which estimates monthly payments for borrowers interested in combining their federal education loans.

Entrance Counseling Requirements

Laws & Regulations

- 34 CFR 685.304(a)

Reference

- *Entrance Counseling Guide for Borrowers*
- *Entrance Counseling Guide for Counselors*

A school participating in the Direct Loan Program must provide entrance counseling to student borrowers before disbursing funds, unless:

- the borrower previously received a Direct Subsidized Loan, Direct Unsubsidized Loan, a subsidized or unsubsidized FFEL Program loan, or Federal SLS Loan;
- the borrower is enrolled in a correspondence program or study-abroad program approved for credit at the home school (however, schools must mail written counseling materials before disbursing funds); or
- the school has adopted an alternative approach to entrance counseling as part of its quality assurance plan (unless ED determines that the alternative approach is not adequate for the school).

When entrance counseling is required, schools must conduct it:

- in person,

- by audiovisual presentation (for example, using a video),
- by computer-assisted technology (for example, using an Internet site that students can access from off campus), or
- if the school has adopted an alternative counseling approach, by mailing counseling materials to students.

In all cases, schools must ensure that an individual with knowledge of Title IV programs is reasonably available to students after the counseling to answer their questions, and schools must document that each student received the required counseling.

If a student borrower is enrolled in a correspondence program or study-abroad program that is approved for credit by the school, the school must mail counseling materials to the borrower before disbursing Direct Loan funds.

- A school may use the U.S. Postal Service or a commercial mailing service to send ED's *Entrance Counseling Guide for Borrowers* publication to borrowers to satisfy the requirement for mailed counseling materials.
- The student does not also have to receive in-person counseling.

During entrance counseling, a Direct Loan school must:

- emphasize to student borrowers the seriousness and importance of the loan repayment obligations they are assuming;
- describe "in forceful terms" the likely consequences of default, including damaged credit ratings, legal action taken, and wage garnishment;
- provide average indebtedness of students who have obtained Direct Subsidized Loans and Direct Unsubsidized Loans to attend the school or enroll in the student's program of study; and
- provide the average anticipated monthly payments for the school's students on the basis of the students' average indebtedness.

ED recommends that Direct Loan schools remind student borrowers:

- to keep the DLSC informed of any changes in name, address, telephone number, Social Security number, employer, or enrollment status; and

For Your Information

A school can adopt an alternative approach to entrance counseling if it is part of the school's quality assurance plan. The alternative approach must:

- ensure that each first-time borrower, subject to counseling requirements, is provided with written counseling materials that comply with the regulations;
- target students who are most likely to default and provide them with more intensive counseling and support services; and
- include outcome-oriented performance measures, such as debt levels, default rates, and withdrawal rates, that demonstrate the alternative counseling approach's effectiveness.

Take a Look

See Chapter 3 for details about the consequences of default.

Take a Look

- See page 7-28 of this chapter and Chapter 12 for details about the DLSC.
- See Chapter 3 for details about borrower responsibilities

- that they are obligated to repay the full amounts of their loans, plus interest, even if they:
  - don't complete their programs of study (unless the school closed or falsely certified their Direct Loans);
  - don't like their school or program of study; or
  - don't obtain employment after completing their program of study.

Schools also should:

- review critical information by having students answer questions (such as the ones provided in the *Entrance Counseling Guide for Borrowers*);
- counsel borrowers on budgeting and other aspects of personal financial planning;
- review loan provisions for deferment, forbearance, and discharge;
- review Direct Loan repayment plans;
- inform borrowers that there is no penalty for early repayment (prepayment) of their loans;
- review borrowers' rights and responsibilities, which are included with their promissory notes and in the *Entrance Counseling Guide for Borrowers*;
- review all loan terms and conditions, including interest rates and loan fees; and
- remind borrowers to contact the DLSC if they have questions or any difficulty making a payment.

Take a Look

See Chapter 2 for details about deferment, forbearance, loan discharge, repayment plans, prepayment, interest rates, loan fees, and other terms and conditions.

Reference

For additional recommendations, see *SFA Handbook: William D. Ford Direct Loan and Federal Family Education Loan Programs.*

Exit Counseling Requirements

A Direct Loan school must provide in-person exit counseling to students who borrow Direct Subsidized Loans and Direct Unsubsidized Loans.

- A school does not have to offer exit counseling to parents who borrow Direct PLUS Loans.

Laws & Regulations

- 34 CFR 685.304(b)

Exit counseling must take place shortly before a student borrower graduates, withdraws, or, for any other reason, stops attending the school at least half time.

There are three exceptions to the requirement for conducting exit counseling in person.

- A school is allowed to use computer-assisted means to conduct exit counseling.
  - The electronic exit counseling does not have to take place at the school. For example, a school may provide personalized exit counseling through a Web site that students can access from off campus. However, the school must document that the exit counseling took place and that knowledgeable personnel were standing by to answer questions, as needed.
- If a student borrower is enrolled in a correspondence program, the school must mail written counseling material to the student within 30 days after he or she completes the program.
- If a borrower withdraws from school without the school's prior knowledge, or if a borrower does not attend a scheduled exit counseling session, a school must mail written exit counseling material to the borrower at his or her last known address.
  - These materials must be mailed within 30 days after a school learns that the borrower has graduated, withdrawn, fallen below half-time enrollment, or hasn't attended the scheduled counseling session.

A school must maintain documentation in the borrower's file to show that a student borrower received the required exit counseling, either in person, by electronic means, or by mail. ED's *Exit Counseling Guide for Borrowers* has a rights and responsibilities summary checklist and a borrower information sheet that schools can use to document that exit counseling took place.

When conducting exit counseling, a school is responsible for:

- informing the student borrower of the average anticipated monthly payments for his or her loans based on either the student's actual debt or the average indebtedness of students at the school or in the student's program (schools can use student-specific materials that, if requested, the DLSC prepares);
- reviewing the available repayment plans and loan consolidation;

Reference

- *Exit Counseling Guide for Borrowers*
- *Exit Counseling Guide for Counselors*

Take a Look

- See Chapter 12 for details about the DLSC.
- See Chapter 2 for details about Direct Loan repayment plans and Direct Loan Consolidation.

- suggesting debt-management strategies that the school believes will help the borrower repay his or her loans successfully;
- reviewing the conditions under which the borrower may defer repayment or discharge loans;
- requiring the borrower to provide any changes to the school's records about his or her:
    - name, address, and Social Security number;
    - references;
    - driver's license number and state where it was issued (if applicable); and
    - name and address of expected employer (if known);
- emphasizing the seriousness and importance of the repayment obligation;
- describing "in forceful terms" the likely consequences of default, including a damaged credit rating, legal action being taken against the borrower, forced repayment by wage garnishment, and income tax refunds being withheld; and
- explaining to the borrower how to contact the DLSC.

ED also recommends that a school's exit counseling sessions include:

- reminding borrowers to keep the DLSC informed of any changes in name, address, telephone number, employer, or enrollment status that might occur while they still owe Direct Loans;
- reminding borrowers that they are obligated to repay the full amounts of their loans, plus interest, even if they:
    - don't complete their program of study (for reasons other than school closure or false certification of loan eligibility), or
    - don't like their school or program of study, or
    - don't obtain employment after completing their program of study;

Take a Look

See Chapter 3 for details about:

- the consequences of defaulting on a Direct Loan and
- borrower obligation to repay Direct Loans.

☎ **Where to Call**

- The borrower services number at the DLSC is 1-800-848-0979.

- reviewing critical information by having students complete the review exercise in ED's *Exit Counseling Guide for Borrowers*;
- counseling borrowers on budgeting and other aspects of personal financial planning;
- reviewing loan provisions for deferment, forbearance, and discharge;
- informing borrowers that there is no penalty for repaying their loans early (prepayment);
- reviewing borrowers' rights and responsibilities;
- reviewing loan terms and conditions, including interest rates and loan fees; and
- reminding borrowers to contact the DLSC if they have questions or any difficulty making a payment.

Disbursement Date

Except when a disbursement otherwise is prohibited, a disbursement occurs when a school credits a student's account or pays a borrower directly with Direct Loan funds or with school funds used in advance of receiving Direct Loan funds.

In most cases, the disbursement date for a Direct Loan is defined as the earliest of:

- the date a school actually credits the student's tuition account;
- the date a school initiates an electronic funds transfer (EFT) to the borrower's personal bank account; or
- the date the check or cash is made available to the borrower.
    - Making a check available means releasing or mailing a check to the borrower or notifying the borrower that the check is ready to be picked up immediately.
    - If a school disburses any Direct Loan funds as cash, the school must obtain a signed receipt from the borrower.

Take a Look

- See Chapter 2 for details about deferment, forbearance, loan discharge, prepayment, interest rates, loan fees, and other terms and conditions.
- See Chapter 3 for details about borrowers' responsibilities.
- See Chapter 12 for details about the DLSC.

Reference

For additional recommendations, see *SFA Handbook: William D. Ford Direct Loan and Federal Family Education Loan Programs.*

Laws & Regulations

- 34 CFR 668.164(a)(2)
- 34 CFR 685.303(c)
- 34 CFR 668.164(d)

- ◇ In the case of a Direct PLUS Loan, the student for whom the parent borrowed the loan is allowed to receive or pick up the funds if the parent provides the school with written authorization.

Reference

- *The Blue Book*
- *SFA Handbook: Institutional Eligibility and Participation*
- *Direct Loan Bulletin 96-5*

ED publications, *The Blue Book* and *Student Financial Aid (SFA) Handbook: Institutional Eligibility and Participation*, offer more information about disbursement date requirements for Title IV funds, including Direct Loan funds.

Disbursement Schedule

Laws & Regulations

- 34 CFR 668.164(b)
- 34 CFR 668.4

Cash management regulations require a school to disburse Direct Loan funds on a payment-period basis. Payment period refers to a term or other division of the loan period and is defined in regulations (34 CFR 668.4).

Laws & Regulations

- 34 CFR 668.164(f)(1)

- ✦ For credit-hour programs with standard terms (semesters, trimesters, or quarters), the earliest a school may disburse first and subsequent Direct Loan funds to a borrower (student or parent) is ten days before the first day of classes for the term.

Laws & Regulations

- 34 CFR 668.164(f)(2)

- ✦ For credit-hour programs not using semesters, trimesters, or quarters and for all clock-hour programs, the earliest a school may make a disbursement of Direct Loan funds is the later of:
    - ◇ ten days before the first day of classes for the payment period or
    - ◇ the date the student completed the previous payment period for which he or she received Title IV funds. This provision does not apply, however, to a subsequent disbursement that a school is required by regulations to make at the midpoint of a payment period.

Laws & Regulations

- 34 CFR 685.301(b)(3)(ii), (b)(5) & (b)(6)

Disbursing Direct Loans in Multiple Installments

Laws & Regulations

- 34 CFR 685.301(b)

A school generally disburses Direct Loans in multiple installments. The disbursements must be in substantially equal installments, and no installment may exceed one half of the loan amount. However, there are five situations for which a school is allowed to make a single disbursement.

- If one or more payment periods have elapsed before a school makes a disbursement, the school may include loan proceeds for completed payment periods in the disbursement.
- If a loan period is equal to one payment period, such as a semester, and more than one-half of the term has elapsed, a school may include loan proceeds for the entire payment period in the disbursement.
- If a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate is less than 10 percent for each of the three most recent fiscal years *and* if the loan period is not more than one quarter, one semester, one trimester, or four months, the school may opt to disburse all loan funds in one disbursement.
- If a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate is less than 5 percent for the most recent fiscal year, it may make a single disbursement to cover the entire academic year to borrowers enrolled in a program of study abroad approved by the eligible home institution.
- If a school is not in a state, it is not required to make more than one disbursement on a loan.

Delayed Disbursement

Some students may not receive a loan disbursement until 30 days after the first day of their program of study begins. When this happens, it is called a "delayed disbursement."

Laws & Regulations

- 34 CFR 668.164(a)(2)
- 34 CFR 685.303(b)(4)

In general, a school may not release the first disbursement of a Direct Loan to a first-year undergraduate student borrower who has not previously received a Federal Stafford Loan, Federal SLS Loan, Direct Subsidized Loan, or Direct Unsubsidized Loan until 30 calendar days after the first day of the student's program of study.

This requirement does not apply to:

- a school that has a FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate of less than 10 percent in the three most recent fiscal years for Direct Loan Program loans and FFEL Program loans,

Laws & Regulations

- HEA, Section 428G(b)(1)

- a parent who borrows a Direct PLUS Loan, or
- a school that has a FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate of less than 5 percent for the most recent fiscal year for loans for study-abroad programs, if those programs are approved by the home institution.

Late Disbursement

Laws & Regulations

- 34 CFR 668.164(g)

A borrower (student or parent) is sometimes eligible to receive a Direct Loan disbursement after the loan period has ended or the student is no longer enrolled at least half time A school is allowed to make a late disbursement only if:

- while enrolled at least half time, the student incurred education-related costs that were not paid by other sources of financial aid;
- while the student was enrolled at least half time, the school received a SAR or ISIR that had an official Expected Family Contribution calculated by ED;
- the school originated a loan origination record for the Direct Loan while the student was enrolled at least half time;
- if required for a first-year, first-time undergraduate, the student completed the first 30 days of enrollment; and
- except for the student's falling below half-time enrollment, the borrower remains eligible to receive the disbursement.

A school is not allowed to make a late second or late subsequent disbursement, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

A school must make a late disbursement no later than 90 days after a student is no longer enrolled at least half time.

Using School Funds to Make Disbursements

A school may use its own funds to disburse Direct Loans before federal funds actually arrive. This is a strategy for avoiding excess cash, but schools may incur liabilities in some cases, for example, if promissory notes are rejected.

The official disbursement date cannot be earlier than the school could otherwise make the disbursement, as described earlier in this section.

- As a result, in most cases, if a school uses its own funds to make disbursements, a Direct Loan is not considered officially disbursed until the tenth day before the first day of classes, even if, for example, a school credits a student's tuition account 11 days or more before classes begin.
- Similarly, for a student whose loan funds are subject to a 30-day delayed disbursement, if a school credits the student's account with institutional funds earlier than 30 days after the first day of classes, the official Direct Loan disbursement date cannot be earlier than the 30th day after the beginning of classes. However, the school has the option to wait until federal funds are actually received before it makes and reports a Direct Loan disbursement.

Take a Look

See Chapter 10 for details about excess cash.

Laws & Regulations

- 34 CFR 668.164(a)

Crediting Disbursements to Student Accounts

As noted earlier in this chapter, a school is allowed to disburse Direct Loan funds to a student's account. A school may do this without obtaining separate written authorization or acknowledgment from the borrower (student or parent).

- The signed Direct Loan promissory note and disclosure statement already contain the necessary authorization and acknowledgment.

When a school credits a student's account, the loan funds can be used to pay the following charges incurred for the loan period:

- tuition,
- fees,
- room (if the student contracts with the school for room), and
- board (if the student contracts with the school for board).

Take a Look

See Chapter 6 for details about promissory notes and disclosure statements.

Laws & Regulations

- 34 CFR 668.164(d)

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If a school has written permission from a borrower (student or parent), the school may also credit funds to the student's account for:

- other current loan-period charges incurred for educationally related activities, such as bookstore charges and parking; and
- prior award year charges if the charges are less than $100 or if paying these charges will not prevent the student from paying his or her current educational costs.

Handling Credit Balances on Student School Accounts

Laws & Regulations

- 34 CFR 668.164(e)

Whenever a school disburses Title IV funds to a student's account and the total amount of funds credited exceeds allowable charges, a check or similar instrument (such as an electronic funds transfer [EFT]) requiring the borrower's endorsement must be issued directly to the borrower within 14 days of the later of:

- the date the balance occurs or
- the first day of classes of the payment period.

Except for schools prohibited from doing so by ED under the reimbursement method, a borrower can also authorize the school to retain the credit balance on the student's account. This borrower's authorization must be given in writing. However, if the borrower withdraws his or her authorization, the school must issue a check or similar instrument to the borrower as soon as possible, but no later than 14 days after the school receives the borrower's notice.

Reference

See the *SFA Handbook : Institutional Eligibility and Participation* for additional information about schools' responsibilities in maintaining credit balances.

If a school receives authorization to hold excess funds, the school must identify the student and/or parent and the amount of funds the school holds for the student and/or parent in a subsidiary ledger account designated for that purpose. The school must maintain, at all times, cash in its bank account at least equal to the amount the school is holding for students. Because Direct Loan funds are awarded to students to pay current-year charges, despite any authorization the school might have from a student or parent, the school must pay any remaining balance on loan funds by the end of the loan period.

Notifying Borrowers

Laws & Regulations

- 34 CFR 668.165

Before a school disburses Direct Loan funds, it must notify a student of the amount that the student and/or the parent can expect to receive, how and when the funds will be disbursed, and which funds are from subsidized loans and which are from nonsubdisized loans.

When a school credits Direct Loan funds to a student's tuition account, the school must notify the borrower (student or parent) of:

- the date and amount of the disbursement,
- the borrower's right to cancel all or a portion of the loan or loan disbursement, and
- the procedures and time by which the borrower must notify the institution that he or she wishes to cancel all or a portion of the loan or loan disbursement.

The school must send the notice to the borrower no earlier than 30 days before and no later than 30 days after crediting the student's tuition account. The notification can be in writing or electronic (such as email).

- However, if a school sends an electronic notification to a borrower, the school must:
    - request that he or she confirm receiving the notice and
    - keep a record of the borrower's confirmation.

Reporting Disbursements

After disbursing Direct Loan funds, schools must report the disbursements to ED's Loan Origination Center (LOC).

- All Direct Loan schools report disbursements by creating electronic disbursement records and transmitting them to the LOC.
    - To create a disbursement record, a school can use ED's free EDExpress software for PCs or other software and systems (PCs, mainframes, or a combination) that meet ED's specifications. These are published in the *Direct Loan Technical Reference.*

Reference

- *Direct Loan Technical Reference*

- All schools must transmit the disbursement record no later than 30 days after the date a Direct Loan was actually disbursed.

When schools transmit disbursement records in a timely fashion, the DLSC can quickly notify borrowers about their loans and what they owe. This is particularly important for Direct Unsubsidized Loan and Direct PLUS Loan borrowers because interest begins to accrue on these loans on the disbursement date.

The LOC will not accept a disbursement record if it has not received and accepted a corresponding loan origination record.

- This is generally not a problem for Standard Origination schools and Origination Option 1 schools because they are not allowed to draw down Direct Loan funds until the LOC has received and accepted corresponding loan origination records (as well as completed and signed promissory notes).
- An Origination Option 2 school must send the loan origination record and properly completed and signed promissory note, as well as the disbursement record, to the LOC within 30 days of the disbursement date. Keep in mind that if the LOC is printing the disclosure notice for the school, the origination record must be received by the LOC before or on the same day as the disbursement is made.
- If the LOC rejects any of three components (loan origination record, promissory note, or disbursement record), the school may be liable for the Direct Loan unless:
  - any problem is resolved and
  - the LOC accepts all three components and books the loan.

The school remains responsible for each subsequent actual disbursement until that disbursement is accepted and booked by the LOC.

After a Direct Loan school (regardless of origination option) transmits a disbursement record to the LOC, the LOC returns a disbursement record acknowledgment, which states the record has been accepted or rejected.

- ED's *Direct Loan Technical Reference* has information about preparing disbursement records for transmission to the LOC, receiving disbursement record acknowledgments from the LOC, and addressing rejected disbursement records.

Laws & Regulations

- 34 CFR 685.301(d)

Take a Look

- See Chapter 2 for details about Direct Unsubsidized Loans and Direct PLUS Loans.
- See Chapter 4 for details about origination options.
- See Chapter 6 for details about loan origination records and promissory notes.

For Your Information

The LOC sends a 30-day warning report to any school that has processed Direct Loans that the LOC cannot book. The LOC produces 30-day warning reports on a weekly basis. The reports list unbooked Direct Loans and the data required to book each loan.

For Your Information

The LOC rejects a disbursement record if it arrives at the LOC before the LOC receives and accepts the loan origination record.

Reference

- *Direct Loan Technical Reference*

Loan Origination Center (LOC) Activities

The LOC processes disbursement records that Direct Loan schools transmit by:

- making sure that each disbursement record can be matched with a loan origination record in ED's Direct Loan database, and
- editing the information in the disbursement record using the loan origination record.

If the disbursement record passes the edits, the LOC accepts the record. If the disbursement record does not pass the edits:

- the LOC rejects the disbursement record, and
- the school must resolve the error and resubmit the record.

Generally, processing disbursement records takes one business day.

After the LOC processes a disbursement record, it sends an electronic disbursement record acknowledgment to the school. The acknowledgment indicates whether the record has been accepted or rejected.

If the LOC has received and accepted a loan origination record, a completed and signed promissory note, and a disbursement record, it books the Direct Loan. This means that:

- there is an official and binding obligation between the borrower and ED, and
- the loan is transferred to ED's Direct Loan Servicing Center (DLSC), which works directly with the borrower until the loan is paid in full or discharged.

Take a Look

See Chapter 2 for details about discharged loans.

Direct Loan Servicing Center (DLSC) Activities

Take a Look

See Chapter 12 for details about the DLSC.

After a Direct Loan is booked, the DLSC sends a welcome letter to the borrower (student or parent). The welcome letter:

- informs the borrower that a disbursement has taken place,
- provides DLSC contact information in case the borrower has questions or needs help, and
- provides summary information about the borrower's Direct Loan. For example, the letter may provide the borrower's:
    - total indebtedness for the Direct Loan,
    - approved loan amount,
    - disbursement amount, and
    - disbursement date.

Take a Look

- See Chapter 2 for details about Direct Loan terms.
- See Chapter 6 for details about promissory notes and disclosure statements.

Every time a Direct Loan is disbursed after the loan is booked, the DLSC will send a new notification to the borrower reflecting changes to the loan amount.

Direct Loans

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Chapter 8: Change Records and Loan Adjustments

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Change Records and Loan Adjustments

Chapter 8

Sometimes information about Direct Loan borrowers changes after schools send loan origination records to ED's Direct Loan Origination Center (LOC). For example:

- a borrower moves to a new permanent address;
- a borrower decides to increase or decrease the amount of his or her Direct Loan for the academic year;
- a borrower becomes ineligible for the full amount of a Direct Loan disbursement; or
- a borrower's eligibility increases and he or she wishes to receive the additional loan amount.

Whenever any data item changes, schools must update information in loan origination records and disbursement records they sent to the LOC.

- These data items include demographic information about the borrower, such as name, address, Social Security number (SSN), and so forth.
- They also include adjustments to loan amounts, loan distribution between Direct Subsidized Loans and Direct Unsubsidized Loans, and disbursement dates.

This chapter provides information about Direct Loan change records. It also details how schools handle downward and upward adjustments to Direct Loan amounts and changes to disbursement dates. The chapter concludes with a brief discussion about:

- returning funds to the Direct Loan Program when students withdraw, drop out, or are expelled; and
- working with borrowers who decide to cancel all or a portion of their Direct Loans.

Take a Look

- See Chapter 6 for details about loan origination records.
- See Chapter 7 for details about loan disbursement records.

From the Archives

The process of "returning" Title IV funds (including Direct Loan funds) used to be called "refund and repayments."

Change Records

Whenever a change occurs to the information on a loan origination record after a school has sent the loan origination record to the LOC, the school must update ED's Direct Loan database by creating an electronic change record and transmitting it to the LOC. All changes to a student's anticipated completion date, regardless of the loan year, are made only through the Student Status Confirmation Report (SSCR).

Take a Look

See Chapter 11 for details about the SSCR process.

Changes to borrowers' loan records often occur on a daily basis. To maintain the integrity of the Direct Loan Program and good customer service to borrowers, schools must track these changes and report them on an ongoing and timely basis to the LOC.

Take a Look

See Chapter 4 for a brief overview of Direct Loan software implementation options for schools.

Schools can use ED's free PC-based software, EDExpress, to manage the procedures for communicating changes to the LOC. EDExpress allows a school to:

- enter changes in the appropriate fields in a borrower's loan origination record or disbursement record (as appropriate),
- prepare change records for transmission by grouping them into exportable files, and
- transmit change-record files to the LOC.

ED conducts annual Direct Loan workshops that focus on how to use EDExpress.

- The workshops include hands-on practice creating change records.
- To accompany the workshops, ED publishes a detailed, step-by-step *Direct Loan Training Guide* about using EDExpress.
    - School representatives who cannot attend a workshop may obtain copies of the *Direct Loan Training Guide* by calling 1-800-848-0978.

Reference

- *Direct Loan Training Guide*

Where to Call

For copies of the *Direct Loan Training Guide*, call 1-800-848-0978.

Schools that do not use EDExpress can use other software that suits their systems (PC, mainframe, or a combination system of PC and mainframe) to send change records. However, the software must meet ED specifications.

- School software options are published in ED's *Direct Loan Technical Reference*. The guide is available at the:

Reference

- *Direct Loan Technical Reference*

- Direct Loan Web site and
- Information for Financial Aid Professionals (IFAP) Web site.

Web site

- http://www.ed.gov/DirectLoan
- http://ifap.ed.gov

Adjustments

There are times, after a school disburses a Direct Loan, that:

- the amount disbursed or the amount of the entire Direct Loan needs to be increased,
- the amount disbursed or the amount of the entire Direct Loan needs to be decreased,
- the actual disbursement date needs to be corrected.

These events are called "disbursement adjustments." Disbursement adjustments have the same reporting rules that regular disbursements have.

- After disbursing funds, schools must report actual disbursement information to the LOC.
- Schools must transmit the disbursement records showing the adjustments as soon as possible, but no later than 30 days after each date of disbursement, adjustment, or deactivation (cancellation).

Take a Look

See Chapter 7 for details about reporting actual disbursements.

ED's *Direct Loan Technical Reference* and *Direct Loan Training Guide* provide detailed technical information on how to make disbursement adjustments.

- This section of Chapter 8 offers a framework for understanding the process.

Reference

- *Direct Loan Technical Reference*
- *Direct Loan Training Guide*

Adjusting Disbursement and Loan Amounts

Schools adjust anticipated disbursements (and corresponding approved loan amounts) by creating and transmitting change records to the LOC to replace or update loan origination records that previously had been forwarded and accepted by the LOC.

- Schools adjust actual disbursements by creating and transmitting disbursement adjustments to the LOC.

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- The LOC sends the adjustment information on to ED's Direct Loan Servicing Center (DLSC) so that borrowers are billed properly, the correct amount of interest accrues, and so forth.
  - When an actual disbursement adjustment record is sent to the DLSC, the actual disbursement amount is adjusted. The interest is recalculated on the basis of that adjustment; it is recalculated from the date the corrected (actual) disbursement amount was disbursed.

Example

Your Local College (YLC) reports an actual disbursement to Casey of $1,000, with a disbursement date of July 1, 1999. On August 1, YLC realizes that Casey actually received $1,500 (instead of $1,000) and sends adjustment information to report that actually $1,500 was disbursed. When the DLSC receives the actual disbursement adjustment record for Casey from YLC, the DLSC recalculates the interest that accrued on the entire $1,500, using July 1, 1999 as the disbursement date. (This is done by backing out the interest that accrued on the originally reported $1,000 disbursement and recalculating from July 1 forward on the basis of the $1,500 disbursement.)

  - Because the DLSC treats adjustments to actual disbursements as corrections to the disbursement amount, adjustments should not be used to make later disbursements. If adjustments are used to report later disbursements, a borrower will be charged the wrong amount of interest. The exception: If the actual disbursement previously was adjusted to $0 (and that was the appropriate thing to do), the actual disbursement may be reactivated as a new actual disbursement. To do this, the school needs to send the DLSC an upward adjustment to the actual disbursement and a new disbursement date. The disbursement date should be the date the money was disbursed to the borrower. Disbursement 1 must be dated before Disbursement 2, and so forth.

Example (continued)

On August 20,1999 (within 120 days of disbursement), Casey returns the $1,500 that YLC disbursed on July 1, and YLC adjusts the disbursement to $0. In September, Casey finds that he needs the money after all, and YLC disburses the money again on September 20, 1999. YLC reports the disbursement to the DLSC by making an adjustment to the actual disbursement and changing the disbursement date to September 20.

Disbursements can be adjusted downward to as little as $0. When a disbursement is reduced to $0, it becomes inactivated.

- Inactivating a Direct Loan disbursement has the same effect as canceling it, with one important difference:
  - By adjusting the disbursement to $0, the school has the flexibility to "activate" the disbursement at a later date—that is, adjusting it upward from $0.

The same principle applies to an entire Direct Loan. The entire amount of a Direct Loan can be adjusted to as little as $0 by reducing the loan amount approved (and corresponding anticipated disbursement amount[s]) in the loan origination record and actual disbursements in the disbursement record to as little as $0.

Adjusting an entire Direct Loan to $0 replaces the cancellation process that was used through the 1998-99 academic year. Beginning with 1999-2000, a Direct Loan will no longer be canceled, it will be inactivated.

- Basically, inactivation is equal to cancellation, except the loan may be reactivated at a later date, but no later than the end of the loan period plus the 90 days allowed for late disbursements.

For Your Information

Although ED no longer "cancels" loans, borrowers are likely to use the word, "cancel." If a borrower asks to cancel a loan, a school should know that this means making the loan inactive in its system and at the LOC.

Take a Look

See Chapter 7 for details about late disbursements.

Benefits of the Adjustment Process

Making adjustments to Direct Loans instead of canceling them or creating a new loan reduces administrative burdens on schools and borrowers. The reason:

- Schools are no longer required to create a new disbursement or loan when a borrower decides he or she needs to borrow all of a portion of a canceled disbursement or loan amount. The school may reactivate the disbursement or loan by adjusting up from $0. This results in changing any affected actual disbursement by adjusting up from $0, changing any affected actual disbursement date(s), and disbursing the loan. This means that:
  - the school does not have to create a new loan, and
  - the borrower does not need to complete and sign a new promissory note.

In contrast to canceling loans in past years, schools now can simply activate Direct Loans that have been inactivated. This streamlines the process. Activating a Direct Loan requires:

- a school to:
  - collect a written statement from the borrower about how much he or she wants to borrow and
  - forward the information to the LOC through a loan origination change record and/or a disbursement record (if required) that reflect(s) the upward adjustment; and
- the LOC to:
  - review the change record and disbursement record and
  - forward an acceptance of the change record and disbursement record to the school.

Adjusting Downward

A downward adjustment means reducing the amount of a Direct Loan.

- Adjustments are handled by the school.
- The borrower (student or parent) is not liable for loan origination fees or accrued interest on Direct Loan amounts that are adjusted downward.

Examples of events that can result in a downward adjustment on a Direct Loan are:

- A disbursement record contains an error in the amount of the actual disbursements.
- A borrower is no longer eligible for all or a portion of his or her Direct Loan. (This includes Direct Loan returns, previously known as "refund and repayments.")
- Within 120 days of the disbursement, a borrower requests that all or a portion of his or her Direct Loan be canceled. (This will result in a downward adjustment of all or part of the loan.)
- A borrower returns Direct Loan funds that the school disbursed to him or her.

For Your Information

There is a difference between making a downward adjustment on a Direct Loan and prepaying a Direct Loan.

- A prepayment occurs 121 days or more after the disbursement date but before the a loan goes into a repayment period.
- The borrower is usually the one who makes the prepayment and is responsible for the loan origination fee and any interest that accrued up to the date he or she makes the prepayments.

To make downward adjustments, Direct Loan schools use a combination of change records and disbursement records, which they forward to the LOC. The chart on the next page shows the steps schools must take.

Take a Look

See page 8-8 for a step-by-step chart for making downward disbursement adjustments.

Adjusting Downward to $0 (Inactivating a Direct Loan)

As noted earlier in this chapter, adjusting an entire Direct Loan and any actual disbursement to $0 replaces the loan cancellation process. Once a loan amount and all disbursements have been adjusted to $0, the loan is considered inactive. Making a loan inactive allows schools the opportunity to reactivate the loan at a future date.

A loan is considered inactive by the LOC when the following data all equal $0:

- the approved loan amount in the loan origination record,
- all anticipated disbursements in the loan origination record, and
- all actual disbursements in the disbursement record.

Inactive loans do not appear on 30-day warning reports that the LOC sends to schools to show which loans have not been booked. However, inactive loans are listed in a separate Inactive Loans Report from the LOC.

- The Inactive Loan Report is in a pre-formatted report form that is generated monthly to list inactive loans at the LOC for a specific school.
- Receiving the report is optional for schools. The LOC sends the report only to schools that request it.
- For each borrower, the report includes the loan type, borrower ID, and inactive date for each loan.

For Your Information

The LOC sends a 30-day warning report to any school that has processed Direct Loans that LOC cannot book.

- As noted in previous chapters, to book a Direct Loan, the LOC must receive and accept:
    - a loan origination record,
    - a completed and signed promissory note, and
    - a disbursement record.
- The LOC produces 30-day warning reports each week. The reports list the unbooked Direct Loans at a school and indicates the data required to book each loan.

Because of differences in rounding rules that sometimes occur between the LOC and Direct Loan schools that don't use EDExpress software, it is possible for actual disbursement amounts in ED's Direct Loan database to be off by $1 from a school's actual disbursement amount. This means that when a school has adjusted the approved loan amount in the loan origination record to $0, the LOC amount can be $1 or -$1. This discrepancy does not prevent the LOC from accepting change records and adjustment disbursement records or considering the loan to be inactive. Since the LOC considers the loan inactive, the information is passed to the DLSC, and the borrower is not charged for any part of the loan.

Steps to Adjust Disbursements and Loan Amounts Downward

Schools that have already disbursed Direct Loans must follow Steps 1 through 5. Schools that have not yet disbursed Direct Loan funds skip Steps 1 through 3, go directly to Step 4 and, then, proceed to Step 5.

Step 1: Create an adjustment to the disbursement record.

- ✦ Adjustments update actual disbursement amount(s) that previously have been transmitted to and accepted by the LOC in a disbursement record(s).
- ✦ Remember: Schools can adjust actual disbursements, including entire Direct Loans, to as little as $0.

Step 2: Transmit the adjustment to the LOC.

- ✦ The LOC will reject any adjustment disbursement record for which it does not have a corresponding LOC-accepted loan origination record and LOC-accepted disbursement record.

Step 3: Wait to receive the LOC's disbursement acknowledgment.

- ✦ Before taking the remaining steps, the school must have a disbursement acknowledgment from the LOC showing that the LOC has accepted the adjustment disbursement record.

Step 4: Create a change record.

- ✦ The change record should be created to update the anticipated disbursement amount(s) and the loan amount approved in the loan origination record to correspond to the updated actual disbursement amount(s) in the adjustment to the disbursement record (see Step 1).

Step 5: Transmit the change record to the LOC.

- ✦ Once the LOC forwards an acknowledgment accepting the change record, the process for updating the loan downward is complete.
- ✦ Note: If the downward adjustment creates excess cash, the funds must be returned to the LOC unless an Origination Option 2 school chooses to disburse the funds to another borrower within the required time frame.

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Handling Direct Loan Funds After Making Downward Adjustments

Origination Option 2 schools may use funds from downward adjustments to Direct Loans to disburse to other eligible Direct Loan borrowers. Funds returned to a school's Direct Loan account because of downward adjustments to student accounts may be held for up to seven days to be disbursed to other eligible students. After seven days, if these funds (called "idle cash") cannot be disbursed, the money must be returned to ED within another three days to avoid holding excess cash.

- Chapter 10 provides more information about cash management requirements, including excess cash.

Take a Look

See Chapter 10 for details about excess cash, idle cash, and other cash management requirements.

Standard Origination schools and Origination Option 1 schools are not allowed to disburse funds that are the result of adjustments to other borrowers. Instead, these schools must return adjustment amounts directly to the LOC within three days of the adjustment date.

Adjusting Upward

An upward adjustment increases the total amount borrowed by a student on his or her Direct Loan. A school is allowed to make an upward adjustment as long as the increase does not exceed:

- Direct Loan annual and aggregate limits or
- the borrower's eligibility.

An upward adjustment occurs when a school:

- reports the wrong Direct Loan amount to the LOC (for example, it reports $1,000 when the correct amount is actually $1,500);
- previously adjusted the disbursement downward and later discovers that this is a mistake (that is, the disbursement should never have been adjusted downward); or
- correctly adjusted the disbursement to $0 and later needs to make another disbursement. In this case, the school would also adjust the actual disbursement date.

To make upward adjustments, Direct Loan schools may use a combination of change records and disbursement records, which they forward to the LOC.

When a borrower becomes eligible for more money, the school sends a change record increasing the amount of the Direct Loan (provided the school has not made four disbursements on that loan). A school must be able to make a new disbursement on a loan—it can't simply adjust an already existing actual disbursement to accomplish this.

Example

For the fall 1999, Susie was a freshman at Your Local College. She was awarded a Direct Loan totaling $2,625. YLC disbursed $1,312 during the fall semester. In January 2000, Susie became a sophomore and was eligible for an additional $875, which she wanted. YLC sent an origination change record increasing both the total amount of Susie's loan to $3,000 and the remaining anticipated disbursement of $2,188. The school then disbursed the remaining money on January 30, 2000.

If, in this example, four disbursements had already been made on Susie's Direct Loan, the school would have had to create a new loan for the additional amount.

The chart on page 8-11 shows the steps most schools must take.

Take a Look

See page 8-11 for a step-by-step chart for making upward disbursement adjustments.

Steps to Adjust Disbursements and Loan Amounts Upward

Step 1: Create a change record.

- The change record updates the loan amount approved and anticipated disbursement amount(s) in the loan origination record to reflect the increase in the total amount of the loan and amounts that actually will be disbursed.
- Remember: Schools can adjust the loan amount for the entire Direct Loan and for individual anticipated disbursements from as little as $0.

Step 2: Transmit the change record to the LOC.

- The LOC will reject any change record for which it does not have a corresponding LOC-accepted loan origination record.

Step 3: Wait to receive the LOC's change record acknowledgment.

- Before taking the remaining steps, the school must have a change record acknowledgment from the LOC showing that the LOC has accepted the increased loan amount and anticipated disbursement amounts.

Step 4: Create a disbursement record or an adjustment disbursement record.

- If the school did not previously disburse Direct Loan funds, it creates a disbursement record.
- If the school did previously disburse Direct Loan funds, it creates an adjustment disbursement record.

Step 5: Transmit the disbursement (or adjustment disbursement) record to LOC.

- Once the LOC forwards a acknowledgment accepting the disbursement (or adjustment disbursement) record, the process for updating the loan upward is complete.

Returning Funds When Students Withdraw, Drop Out, or are Expelled

Laws & Regulations

- HEA, Section 484B
- 34 CFR 668.22

Reference

- *SFA Handbook: Institutional Eligibility and Participation*
- *The Blue Book*

Take a Look

- See Chapter 10 for details about procedures for returning Direct Loan funds.
- See page 8-6 for details about making downward adjustments.

When students withdraw, drop out, or are expelled, schools that participate in Title IV programs, including the Direct Loan Program, calculate whether any Title IV funds have to be returned. The calculation for returning funds is defined in the Higher Education Act of 1965, as amended, and Title IV General Provisions regulations. In addition to determining how much must be returned to Title IV programs, the statute and regulations also specify which Title IV programs the funds must go to first.

- ED's *Student Financial Aid (SFA) Handbook: Institutional Eligibility and Participation* and *The Blue Book* provide step-by-step instructions and worksheets for calculating returns and the order in which funds must be returned.
- Chapter 10 of this guide provides information on where to send Direct Loan funds that need to be returned to avoid excess cash.

When funds must be returned to the Direct Loan Program, schools make downward adjustments to borrowers' disbursement records.

- They forward the information to the LOC using change records and adjustment disbursement records.
  - A description of making downward adjustments begins on page 8-6.
- After the LOC receives and accepts the change records and adjustment disbursement records, the LOC passes the information on to the DLSC.

Borrowers' Requests to Cancel (Inactivate) Direct Loans

Borrowers sometimes request that all or a portion of their Direct Loans be canceled (inactivated). Borrowers are required to inform schools when they decide to cancel (inactivate) their loans.

Take a Look

See page 8-7 for details about inactivating Direct Loans.

- A school must honor a borrower's request to cancel (inactivate) a Direct Loan if the borrower makes the request by one of the following dates (whichever is later):
  - within 14 days after the date the school sends a disbursement notice, or
  - by the first day of the payment period.
- A school may—but is not required to—inactivate all or a portion of a Direct Loan if the borrower requests that the loan be cancelled (inactivated) 15 or more days after the school sends a disbursement notice or after the first day of the payment period.

A school must inform a borrower in writing or electronically about the outcome of his or her request. If a school notifies a borrower electronically, the school must:

- confirm that the borrower received the notification and
- keep a record of the confirmation on file.

Schools update the LOC about inactivated loans by making downward adjustments to the loan amount and disbursements. This process is explained beginning on page 8-6.

Take a Look

See page 8-6 for details about making downward adjustments to Direct Loans.

Borrowers who decide to cancel (inactivate) their Direct Loans after funds have been disbursed directly to them should return the funds to the school. The schools can, then, return the funds to the LOC.

If the school does not return Direct Loan funds—that is, the school refuses because the borrower did not make the request on time—the borrower must send the Direct Loan funds to the DLSC.

- The borrower needs to include a letter with the Direct Loan funds that he or she returns to the DLSC stating whether the funds are for a loan payment or for canceling (inactivating) the loan. The letter should indicate which loan or loans the funds should be applied to, and in what amounts (if repayment is being split between loans).
- If, within 120 days of the disbursement date, the borrower states that he or she is canceling (inactivating) all of his or her Direct Loan, then he or she is not responsible for loan fees and accrued interest.
- A borrower who cancels (inactivates) a loan after 120 days of the disbursement date is held responsible for loan fees and any interest that accrued during the period in which the borrower had access to the money.

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School Guide

Chapter 9: Reconciling Direct Loans

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Reconciling Direct Loans

Chapter 9

ED defines reconciliation as follows:

> "The process by which the Direct Loan cash balance reported by the Loan Origination Center (LOC) is reviewed and compared with the school's internal records on a monthly basis by the school. Schools should resolve all discrepancies."

In other words, reconciliation is the process by which a school balances Direct Loan records with the LOC. It is critical that schools develop and maintain reliable procedures for reconciling their Direct Loan accounts. The information in this chapter provides a general overview of the reconciliation process.

Reconciliation: A Three-Way Comparison

In reconciling Direct Loan records, there are three sources of information to be compared:

- the school's business office system,
- the school's Direct Loan System, and
- the Loan Origination Center (LOC).

The LOC provides a monthly Direct Loan School Account Statement (DLSAS), which is described in the next section, that is a key component in reconciliation. However, it is also important for the school to develop internal procedures to ensure that its business office records and Direct Loan System records are current and accurate. In addition, schools should realize that prompt reporting to the LOC can greatly simplify the reconciliation process, because the Direct Loan School Account Statements generated by the LOC will then be much more likely to match the school's own records.

Direct Loan School Account Statement (DLSAS)

The LOC provides the fundamental basis for monthly reconciliation in the form of an electronic file called the Direct Loan School Account Statement (DLSAS). The DLSAS is sent to the school on the first weekend of each month with data for the prior month's transactions.

Beginning with the 1998-99 award year, the LOC sends a separate DLSAS for each academic year that the school participates in the Direct Loan Program until that academic year is closed out as directed by ED. Since schools can have up to three open academic years at any given time, they may receive up to three Direct Loan School Account Statements each month.

The DLSAS is sent using a message class. The school may import and format the electronic file to look like a bank statement.

For Your Information

The DLSAS message class is year-specific, so it changes yearly (italics added for emphasis).

- For 1998-99 it is DSAS*99*OP.
- For 1999-2000 it is DSAS*00*OP.
- For 2000-01 it is DSAS*01*OP.

Each DLSAS includes the following types of monthly records:

- a cash summary,
- a cash detail report, and
- an optional loan detail report (included unless the school chooses not to receive it).

Schools are responsible for using this information to reconcile their own records with the DLSAS.

DLSAS Cash Summary

At the beginning of each academic year, a school starts with a beginning cash balance of zero on the DLSAS. Following this, the cash summary record for each month begins with the ending cash balance from the previous month.

Take a Look

See page 9-4 for a sample of the DLSAS cash summary.

The cash summary includes the following information for the reported month:

- ✦ all drawdowns received by the school, as reported by ED's Grant Administration and Payment System (GAPS);
- ✦ all excess cash returned by the school and received by the LOC;
- ✦ all booked disbursement transactions—actual disbursements, adjustments, and (prior to academic year 1999-2000) cancellations—acknowledged by the LOC; and
- ✦ all unbooked accepted disbursement transactions reported by the school to the LOC.

These transactions appear on the DLSAS for the month in which the LOC receives or acknowledges the transaction. A September disbursement acknowledged by the LOC in October will therefore appear on the October DLSAS, which will arrive at the school in early November.

GAPS reports drawdown information to the LOC. Drawdowns are included in the statement for the month that GAPS transmitted the drawdown information to the LOC.

Some points worth emphasizing about the DLSAS cash summary are:

- ✦ Returns of excess cash will only be included on a particular month's report if they were received by the LOC in that month.
- ✦ The "Net Booked Disb. Actual" and "Net Booked Disb. Adjustments" on the DLSAS cash summary are totals of all transactions acknowledged as booked by the LOC during the month.
- ✦ The "Ending Cash Balance" indicates the cash balance at the end of each month for all the cash transactions and booked disbursement transactions.
- ✦ All unbooked transactions are records for which the LOC has accepted disbursements or adjustments but does not have accepted promissory notes.
- ✦ The unbooked information in the DLSAS cash summary will include all **cumulative** accepted but unbooked transactions through the end date of the DLSAS. Origination Option 2 schools should be the only schools that show any totals in this section.

Take a Look

- See Chapter 3 for an overview of GAPS.
- See Chapter 10 for details about excess cash and other cash management requirements.
- See Chapter 7 for details about disbursements.

For Your Information

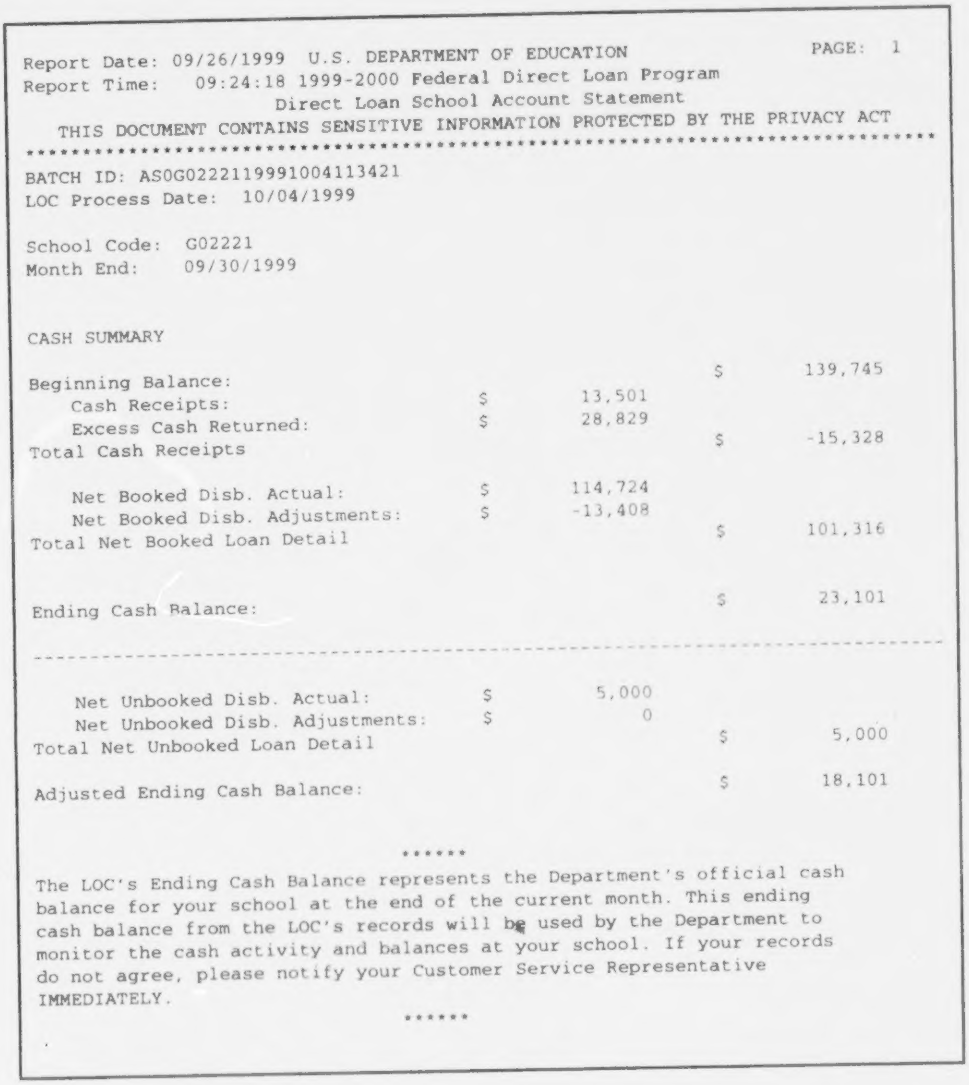
A loan is booked when the LOC has received and accepted a borrower's:

- loan origination record,
- completed and signed promissory note, and
- disbursement record.

Take a Look

See Chapter 4 for details about school origination options.

An example of a DLSAS cash summary appears below.



```
Report Date: 09/26/1999  U.S. DEPARTMENT OF EDUCATION               PAGE:  1
Report Time:    09:24:18 1999-2000 Federal Direct Loan Program
                           Direct Loan School Account Statement
   THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT
*****************************************************************************
BATCH ID: AS0G02221199910041134 21
LOC Process Date:  10/04/1999

School Code:  G02221
Month End:    09/30/1999


CASH SUMMARY
                                                            $        139,745
Beginning Balance:
    Cash Receipts:                   $          13,501
    Excess Cash Returned:            $          28,829
                                                            $        -15,328
Total Cash Receipts

    Net Booked Disb. Actual:         $         114,724
    Net Booked Disb. Adjustments:    $         -13,408
                                                            $        101,316
Total Net Booked Loan Detail


                                                            $         23,101
Ending Cash Balance:

-----------------------------------------------------------------------------

    Net Unbooked Disb. Actual:       $           5,000
    Net Unbooked Disb. Adjustments:  $               0
                                                            $          5,000
Total Net Unbooked Loan Detail

                                                            $         18,101
Adjusted Ending Cash Balance:


                                   ******
The LOC's Ending Cash Balance represents the Department's official cash
balance for your school at the end of the current month. This ending
cash balance from the LOC's records will be used by the Department to
monitor the cash activity and balances at your school. If your records
do not agree, please notify your Customer Service Representative
IMMEDIATELY.
                                   ******
```

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DLSAS Cash Detail

The cash detail report provides information on the following transactions during the reported month:

- all drawdowns, and
- all excess cash returned.

Some important points to note are:

- The LOC obtains detailed drawdown information directly from GAPS.
- The LOC obtains excess cash information from its records of funds received from the school.
- Drawdowns are included in the DLSAS for the month in which GAPS transmitted the information to the LOC.
- Excess cash is included in the DLSAS for the month in which the funds were received at the LOC.

The cash detail records include GAPS control numbers for drawdowns and check numbers for excess cash returns. This is a new feature to help schools track information.

An example of a DLSAS cash detail appears below.

```
Report Date: 09/26/1999   U.S. DEPARTMENT OF EDUCATION                PAGE:  2
Report Time: 09:24:18 1999-2000 Federal Direct Loan Program
                        Direct Loan School Account Statement
   THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT
**************************************************************************
BATCH ID: AS0G0222119991004113421
LOC Process Date: 10/04/1999

School Code:  G02221
Month End:    09/30/1999


CASH DETAIL RECORDS FOR THIS MONTH

TRANS TYPE     DATE          AMOUNT                GAPS CONTROL #     CHECK #
-----------    ----------    ---------------       --------------     -------
Cash Receipt   09/25/1999    $         13,501      9876543211234
Excess Cash    09/12/1999    $         13,408                         254987651ABC
Excess Cash    09/19/1999    $         15,421                         254987652ABC
```

Take a Look

- See Chapter 7 for details about drawing down funds.
- See Chapter 10 for details about excess cash and other cash management requirements.

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DLSAS Loan Detail

The DLSAS loan detail is an optional report that includes the following information for the reported month:

- booked disbursement transactions—disbursements, adjustments, and (prior to academic year 1999-2000) cancellations—acknowledged by the LOC and sorted by loan I.D., and
- accepted but unbooked disbursement transactions for the academic year.

If a school wants to receive loan detail records, the school may choose to receive all loan detail records or only the unbooked records.

- A school should contact its customer service representative (CSR) at the LOC if it chooses not to receive the loan detail information or wishes to receive the unbooked records only; otherwise, the school will automatically receive all loan detail records.
- If the school decides not to receive this information on a regular basis, it can change its request at any time and request loan detail information for any previous monthly statement by calling the LOC.

Some points worth emphasizing are:

- The loan detail information will include booked records that are acknowledged during that specific month.
- All accepted but unbooked disbursement transactions will be included on the DLSAS for the year to date.
- If an accepted disbursement transaction is unbooked, then there is a problem with the promissory note.
- Each booked transaction will also include the disbursement booked date. This is the date the individual transaction books at the LOC. This date determines the month the disbursement transaction appears on the DLSAS. Either the disbursement acknowledgment date or the promissory note acknowledgment date determines the booked date.

An example of a DLSAS loan detail appears below.

```
Report Date:  09/26/1999      U.S. DEPARTMENT OF EDUCATION             PAGE:  3
Report Time:  09:24:18     1999-2000 Federal Direct Loan Program
                         Direct Loan School Account Statement
   THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT
******************************************************************************
BATCH ID : AS0G022211999l004113421
LOC Process Date:  10/04/1999

School Code:  G02221
Month End:    09/30/1999

LOAN DETAIL RECORDS

BORROWER'S NAME                   DISB#/TYPE   LOC        STATUS           BOOKED
LOAN ID                           DATE         AMOUNT                      DATE
--------------------              ----------   --------   --------------   ----------

SMITH, CYRIL                      1  D                    UNBOOKED
222222222S00G02221001             09/07/1999   $   5000   GROSS
                                               $    200   FEE
                                               $   4800   NET
                                               $      0   NET ADJUSTMENT

BROWN, MARY                       1  D                    BOOKED           09/08/1999
333333333S00G02221001             09/07/1999   $   2750   GROSS
                                               $    110   FEE
                                               $   2640   NET
                                               $      0   NET ADJUSTMENT
```

Preparing for Monthly Reconciliation

Schools should maintain their internal records in such a way that they can prepare for monthly reconciliation by completing the following steps each month:

- ✦ Export all pending data. This will ensure that the LOC can provide accurate information by having all current:
  - ◇ loan origination records,
  - ◇ disbursement records (including adjustments), and
  - ◇ completed and signed promissory notes and promissory note manifest.

Take a Look

- See Chapter 6 for details about loan origination records and promissory notes.
- See Chapter 7 for details about disbursement records.

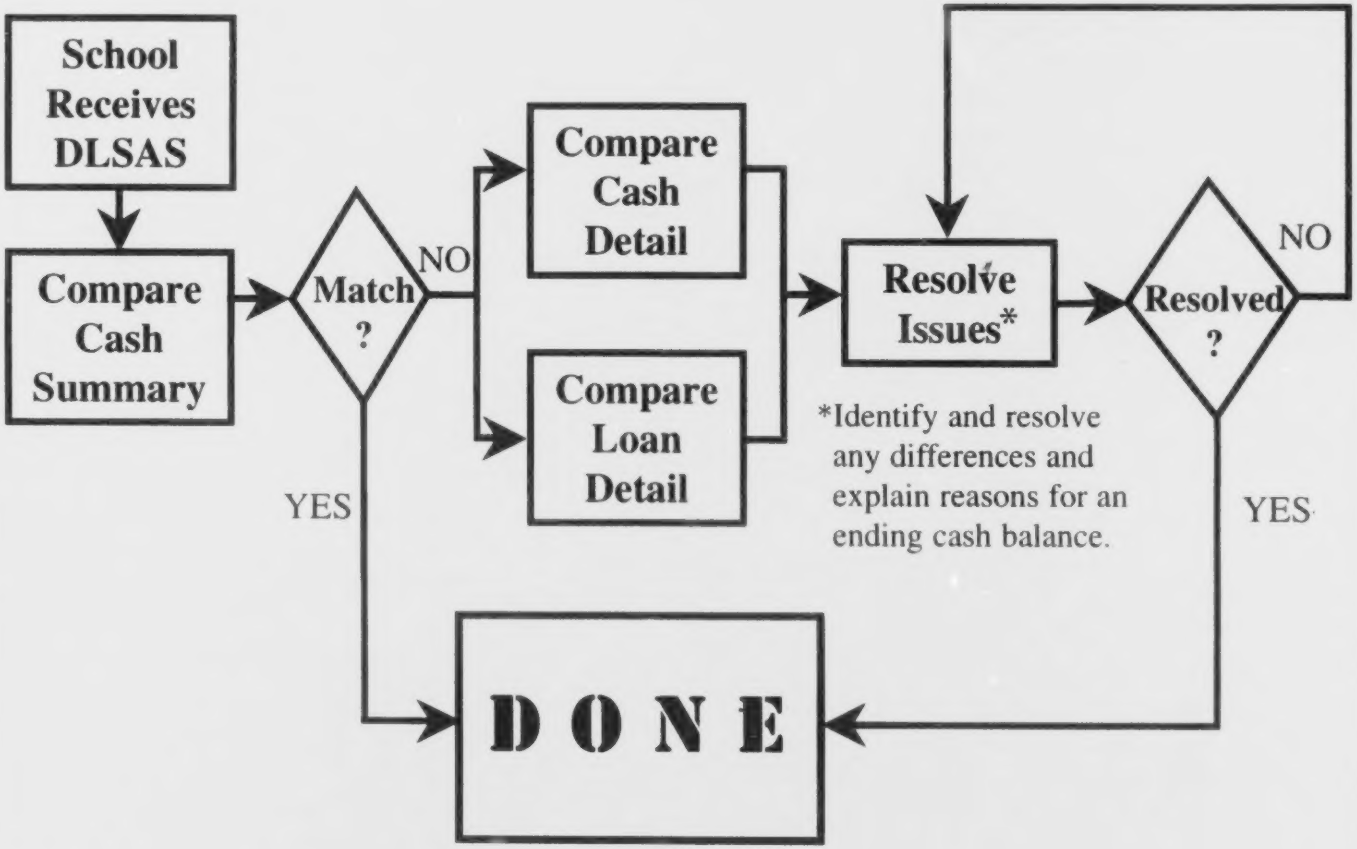
- Import all pending acknowledgments. This will ensure that schools can successfully complete monthly reconciliation by having all necessary:
    - summary acknowledgments,
    - master promissory note confirmation acknowledgments, and
    - disbursement acknowledgments.
- Allow enough time for all pending items to be acknowledged by the LOC (generally five business days).
- Review the batch activity list for any unconfirmed batches, and import any missing acknowledgments.
- Review drawdown and excess cash activity in the school's federal bank account and reconcile any discrepancies.
- For schools using EDExpress (free PC-based software provided by ED), run the Booked Status Report Measurement Tool. This report helps identify any unbooked loans in the school's system and indicates which component (master promissory note or disbursement record) is needed to book the loan.
- Back up all Direct Loan data files.

Performing Monthly Reconciliation

Each month, the LOC sends a DLSAS report to the school. This report is generated by the LOC during the first weekend of the month following the reported month (for example, the first weekend in September, the LOC generates a report for August and sends it to the school). The school is required to reconcile the information on the DLSAS report to its internal records on a monthly basis.

The DLSAS is one component of a three-way reconciliation process in which the DLSAS is compared with the school's business office records and the school's Direct Loan System records. The chart on the following page shows the basic steps of monthly reconciliation.

Steps to Reconciling the DLSAS


School Receives DLSAS
Compare Cash Summary
Match ?
NO
YES
Compare Cash Detail
Compare Loan Detail
Resolve Issues*
Resolved ?
NO
YES
DONE

*Identify and resolve any differences and explain reasons for an ending cash balance.

Compare Cash Summary

Once the school receives the DLSAS, the first step in monthly reconciliation is to compare the ending cash balance, cash receipts, excess cash, and disbursement totals from the DLSAS cash summary to each corresponding total in the school's Direct Loan System and business office system. The following chart summarizes this process:

HOW TO COMPARE THE DLSAS (DSAS000P.*) AND SCHOOL RECORDS--CHART 1

DLSAS	Compare to School's	Look For
Cash Summary Contains totals of: ✦ Beginning Cash Balance ✦ Cash Receipts (Drawdowns) ✦ Excess Cash Returned ✦ Net **Booked** Disbursements ✦ Net **Booked** Adjustments ✦ Ending Cash Balance ✦ Net **Unbooked** Loan Detail	✦ School Business Office records/systems showing cash balances AND/OR ✦ Direct Loan System Cash Summary Reports (named "List–Cash" in EDExpress)	Discrepancies in totals of: ✦ Drawdowns ✦ Excess cash ✦ Disbursements ✦ Adjustments ✦ Ending cash balance

- If the school's internal systems match all the totals on the DLSAS cash summary, the reconciliation has been successfully completed.
- If the cash balances do not match, the school must continue with the reconciliation process.
- There may be discrepancies in one or more areas between the DLSAS and the school's records. The initial analysis of the cash summary information should narrow the field for detailed analysis to those areas in which the school has identified discrepancies.

- Each of the three systems—the school's business office system, the school's Direct Loan System, and the LOC—may account for cash receipts, excess cash, and disbursement transactions in different ways. Schools must take this into account when conducting their reconciliations.
- When reconciling the DLSAS cash summary with the school's internal cash records, the school must allow for any timing differences caused by transaction dates that fall close to the beginning or the end of the month.

Compare Cash Detail

If the school cannot reconcile the balances on the cash summary report with its internal records, the next step is for the school to compare the DLSAS cash detail records to the information in its Direct Loan System and business office system. The following chart summarizes this process:

HOW TO COMPARE THE DLSAS (DSASOOOP.*) AND SCHOOL RECORDS--CHART 2

DLSAS	*Compare to School's*	*Look For*
Cash Detail Includes detailed list of: ✦ **Drawdown** transactions reported by GAPS ✦ **Returns of excess cash** received by LOC	✦ Business Office records: ✧ Bank statements ✧ Canceled checks ✧ Ledgers AND/OR ✦ Direct Loan System Cash Detail Reports (if available)	✦ Differences in dollar amounts ✦ Individual cash receipts or returns of excess cash not recorded for that month because of **timing** issues ✦ Cash receipts or excess cash not recorded in one or more systems ✦ Cash receipts or excess cash recorded in the wrong year in any system ✦ Returns of excess cash recorded as a payment in one or more systems

- If, after reviewing the DLSAS cash detail records, the school is able to resolve the accounting discrepancies, the reconciliation has been successfully completed.
- If, after reviewing the cash detail records, the discrepancies are not resolved, the school will need to use other resources (for example, the DLSAS loan detail) to continue the reconciliation process.

Compare Loan Detail

One of the resources available to schools during the reconciliation process is the optional DLSAS loan detail report. Schools choosing not to receive the loan detail records with their monthly DLSAS can still request reports on an as-needed basis by contacting their LOC customer service representative.

As noted previously, schools may choose to receive all loan detail records or only the unbooked records.

The school should compare the DLSAS loan detail records to the information in its Direct Loan System and business office system. The following chart summarizes this process:

HOW TO COMPARE THE DLSAS (DSAS00OP.*) AND SCHOOL RECORDS--CHART 3

DLSAS	Compare to School's	Look For
Loan Detail (Optional) Includes detailed list of: ✦ **Booked** disbursement transactions ◇ Disbursements ◇ Adjustments	✦ List of disbursement transactions with all three status flags—origination, promissory note, and disbursements (named "Measurement–Booked Status" in EDExpress)	✦ Transactions with any of the three status flags not in "A" status
✦ **Unbooked** disbursement transactions ◇ Disbursements ◇ Adjustments	✦ 30-Day Warning Report ✦ Messages class (DIWR??OP). Question marks represent last two digits of the award year.	✦ Loans which are missing a necessary component to book the loan (missing a loan origination record, promissory note, or **first** disbursement)

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HOW TO COMPARE THE DLSAS (DSAS000P.*) AND SCHOOL RECORDS--CHART 3 (CONTINUED)

DLSAS	Compare to School's	Look For
	✦ Actual Disbursement Status Report (named "List–Actual Disbursements" in EDExpress)	✦ Any disbursements not in "A" status: ✧ "R" – Batch and transmit ✧ "B" – Ensure it was transmitted and/or pull in acknowledgment ✧ "E" – Resolve the problem and batch and transmit
	✦ Pending Disbursement Report (named "List–Anticipated Disbursements" in EDExpress)	✦ Unrecorded disbursements
	✦ Business Office Disbursement Records (credits to student accounts)	✦ Any discrepancies between internal disbursement records, DLSAS, and Direct Loan System
	✦ Origination Status Report (named "List–Loans" in EDExpress)	✦ Loan origination records not in "A" status
	✦ Promissory Note Status Report (named "List–Promissory Note" in EDExpress)	✦ Notes not in "A" status: ✧ P = Printed, not signed ✧ S = Signed, with no corresponding manifest batch ID and/or no acknowledgment ✧ X = Pending, no accepted origination record

Note: Mainframe schools and third-party software vendors may develop reports similar to those available through EDExpress.

If, after reviewing the DLSAS cash detail records and loan detail records, the school is able to resolve the remaining accounting discrepancies between the DLSAS and its Direct Loan and business office systems, the reconciliation has been successfully completed.

There are many possible reasons for apparent discrepancies between the school's internal systems and the DLSAS cash and loan detail records. Some examples include:

- timing of drawdowns,
- timing of booked loans,
- drawdowns allocated to the wrong academic year,
- drawdowns split between academic years,
- excess cash in the wrong year or disbursed to a student in a different academic year,
- unsent/unacknowledged disbursement batches,
- disbursements recorded in the school's business office system but not in its Direct Loan System,
- excess cash returned that should have been a payment,
- a payment sent that should have been excess cash,
- school data loss, and
- unbooked records.

In the reconciliation process, cash detail information should generally be compared directly to the school's internal business office records, such as bank statements and canceled checks. Cash reports may be run from the school's Direct Loan System, but the school should use its business office records as the final authority.

Remember that schools may be receiving DLSAS reports for up to three academic years each month. The concurrent reconciliation efforts may result in overlapping cash detail data, such as when a drawdown has been split between award years. Schools should ensure that there is good communication among the staff members responsible for reconciling the different academic years. These multiple-year reconciliation efforts will sometimes reveal global issues at the school that need to be resolved.

Loan Detail Exception Report

If a school is unable to reconcile its records, it has the option of creating a loan detail file and sending it to the LOC. The LOC will compare the school's detail file to LOC records and generate a Loan Detail Exception Report showing any differences between its records and those of the school. The school then uses the Exception Report to identify and resolve any reconciliation issues. Once the issues are resolved, the school should send an updated loan detail file to the LOC for further review. This process continues until the school records and LOC records are reconciled successfully.

The school should send the export file to the LOC in the following Message Class:

- DERC00IN—This message class will contain either **booked** or **unbooked** loan detail, as indicated by the school during the export process.

The exception reports will be returned in the following Message Classes:

- ED0100OP—Loan Detail Exception Report for **booked** loans.
- ED0200OP—Loan Detail Exception Report for **unbooked** loans.

The exception reports are sent to the school in Report Format, so that they can easily be printed. A sample Exception Report for unbooked loans appears on the next page.

Other important points to note:

- Loan Detail Exception Reports only compare disbursement detail records (either booked or unbooked) from the school's Direct Loan System to those at the LOC. The school's business office records will not be compared.
- The Loan Detail Exception Report does not update any fields on the school's Direct Loan System. It is only a report.
- Loan detail files containing booked data will be for one month only (for example, if the end date is 10/31/99, the exception file will only contain loan detail data that booked in October).
- Loan detail files for unbooked data will include all unbooked loans for the year, through the date of the export.

An example of a Loan Detail Exception for unbooked loans appears below.

```
DL HEADER 0079ED02000P  G92516-LOCUNBOK19980906142335UB

Report Date: 10/06/1999     U. S. DEPARTMENT OF EDUCATION        Page:     1
Report Time: 02:22:55 PM     Federal Direct Loan Program
                  Loan Detail Exception Report for Unbooked Loans
                               End Date of 09/30/1999

THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT

School ID: G91234    School Name: ELECTRONIC UNIVERSITY
No. of Attempts This Month:  1  Direct Loan Year: 05  File Processed: Accepted

Loan ID     Transaction Disb Acty Seq  Booked   Gross      Fee    Net    Adj  Man
                 Date    No  Code  No   MMYY     Amt       Amt    Amt    Amt  Adj
--------------------------------------------------------------------------------
008661760 U 00 G91234 001
     SCHOOL  07/31/1999  1    D     1          $1167.00  $46.00  $1121.00
     LOC
     Difference       *  *    *     *              *       *         *

     SCHOOL  09/30/1999  2    D     1          $1167.00  $46.00  $1121.00
     LOC
     Difference       *  *    *     *              *       *         *

023588884 P 00 G91234 001
     SCHOOL  07/05/1999  1    D     1          $1000.00  $40.00   $960.00
     LOC
     Difference       *  *    *     *              *       *         *

     SCHOOL  09/05/1999  2    D     1          $1000.00  $40.00   $960.00
     LOC
     Difference       *  *    *     *              *       *         *


   * indicates a difference between the school data and the LOC.

DL TRAILER00790000062
```

Completing the Monthly Reconciliation

A school has completed its monthly reconciliation when:

- All differences between the DLSAS and the school's internal records (Direct Loan System and business office system) have been resolved or documented.
- Timing issues have been identified and will be tracked for reconciliation in the next month's DLSAS.

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- Any necessary corrective actions have been taken to ensure that all the prior month's issues will reconcile in the following month.
- All reconciliation efforts have been documented for future reference and review.

Documenting monthly reconciliation efforts is strongly recommended and will be extremely useful to schools as a record that they have met their reconciliation requirement. The U.S. Department of Education (ED) does not regulate specific types of documentation for school reconciliation activities. However, monthly documentation shows that the school has made a good faith effort to reconcile its records to ED's records, according to program requirements. It also provides very useful reference materials for the end-of-year reconciliation and closeout for the academic year. The format of the documentation is not as important as what is documented.

In summary, monthly reconciliation and documentation allows schools to:

- stay on top of their outstanding issues every month, and
- keep historical records of issues for later review or to update new or returning staff members.

Year-End Closeout

Reconciliation also takes place on a yearly basis. This is called the year-end closeout. Closing out is the process of reconciling all school information at the LOC and of bringing all ending cash balances to $0.

In addition to resolving cash balance issues in a timely manner, careful monthly reconciliation also allows schools to complete their year-end closeout much more efficiently. The year-end process is similar to monthly reconciliation in that the school's main purpose is to match its internal records to those of the LOC. There are, however, two key differences—the year-end closeout involves the entire academic year rather than a single month, and there is a specific file used to present the information.

The year-end closeout process is complete when:

- the school and the LOC each show a cash balance of $0, indicating that the school has accounted for all Direct Loan funds received from ED, *and*

- all LOC transaction records match up to all school Direct Loan System transactions and business office system transactions, *and*
- all actual disbursement records are booked at the LOC, so that the DLSAS reflects a $0 unbooked balance.

For Your Information

In the future, schools will use the DLSAS as their year-end closeout tool, replacing the 732-LOS file.

A valuable tool to assist schools with the year-end closeout process is the 732-LOS file. This file provides ED's official ending cash balance for the school as of the date of the report, based on the LOC's records. The 732-LOS file is sent by the LOC to the school and comes as two text files—a summary file and a loan detail file.

The school should begin by importing the 732-LOS Summary file, which summarizes the total balances for cash receipts, returns of excess cash, booked disbursements, and unbooked disbursements. The school should then compare these totals to its own internal records. If the LOC and internal records show a balance of $0, then the school is considered to have successfully closed out the given program year. If the balances match but show a balance of anything other than $0, the school should determine what transactions need to be forwarded to or imported from the LOC to complete the closeout.

If the LOC's balance and the school's balance do not match, then the school should import the 732-LOS Detail file. This file provides loan and cash information at the loan level, allowing schools to review their own internal records in more detail to determine why the balances do not match. If cash transactions are not accounted for, the school should contact the LOC to determine if drawdowns or returns of excess cash were allocated to a different program year. If this is the case, the LOC (in the case of Standard Origination schools and Origination Option 1 schools) or the school through GAPS (in the case of Origination Option 2 schools) should reallocate the cash to the correct program year.

If the balance is not $0, then the school is responsible for reviewing and correcting its records. The LOC will work with the school until it reaches a $0 balance and is considered reconciled.

Direct Loans

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School Guide

Chapter 10:
Cash Management Issues for Direct Loan Schools

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Cash Management Issues for Direct Loan Schools

Chapter 10

Introduction

Cash management requirements in the Title IV General Provisions regulations, govern a school's management of most Title IV student financial aid program funds. These requirements establish rules and procedures that a school must follow in requesting, maintaining, disbursing, and otherwise managing Title IV federal student aid funds under the Pell Grant, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL Programs. ED publishes *The Blue Book*, which provides extensive guidance to schools about Title IV program cash management. This chapter focuses on maintaining and managing cash in the Direct Loan Program. Chapter 7 discusses in detail the cash management requirements related to disbursing Direct Loan funds.

Laws & Regulations

- 34 CFR 668, Subpart K

Reference

- *The Blue Book*

Take a Look

See Chapter 7 for more information about disbursements.

Purpose of Cash Management Requirements

Cash management requirements for Direct Loans are intended to:

- promote sound cash management of Direct Loan funds by schools,
- minimize the government's cost of making Direct Loan funds available to students and schools, and
- minimize the costs that accrue to students who receive Direct Loans.

Laws & Regulations

- 34 CFR 668.161

Take a Look

See Chapter 4 for more information about third-party servicers.

Take a Look

See Chapter 7 for details about drawing down and disbursing Direct Loan funds.

Direct Loan funds received by a school are held in trust for ED for the intended student beneficiaries and ED.

- Program funds cannot be used as collateral or for any other purpose.
- These rules and procedures also apply to third-party servicers. For more information about third-party servicers, see the discussion in Chapter 4.

In addition to meeting other cash management requirements, a school must establish internal Direct Loan cash management standards and practices to ensure that:

- requests for federal funds take into account the school's available funds balance,
- the cash balance is no more than the minimum needed to cover immediate disbursements ("immediate need"),
- drawdowns and disbursements of funds are tracked, showing that for every drawdown there is an equal amount disbursed, and
- adequate controls are in place to ensure the school does not spend more funds than it has authority to spend.

Payment Methods

The U.S. Department of Education (ED) provides Title IV funds to a school using one of the following payment methods:

- advance,
- just-in-time,
- reimbursement, or
- cash monitoring.

ED determines the payment method each school uses.

Advance Payment Method

Under the advance payment method, a school submits a request for Direct Loan funds to ED before disbursing aid to eligible students and parents. If ED accepts a school's request for funds, it will make an electronic funds transfer of the amount requested to a bank account designated by the school. A school may not request more funds than it needs immediately to cover disbursements that it has made or will soon make to eligible students and parents. A school must disburse the funds within three business days of receiving them.

Laws & Regulations

- 34 CFR 668.162(b)

Just-in-Time Payment Method

A limited number of Direct Loan schools are participating in a pilot program under Access America for Students. These schools will be receiving Direct Loan funds by the just-in-time payment method. Under the just-in-time payment method pilot, a school submits a disbursement record no earlier than five days before the actual anticipated date of disbursement. For each request accepted by ED, the appropriate funds are deposited directly into the schools' bank account.

Schools participating in the pilot are exempt from certain regulatory requirements, including the "three-day use" rule required for the advance payment method and the excess cash rules.

Laws & Regulations

- 34 CFR 668.162(c)

For Your Information

ED, along with several other federal agencies, is developing and implementing Access America for Students. It provides electronic, Web-based access to government services and tests key concepts of the Modernization Blueprint (formerly Project EASI).

Reimbursement Payment Method

Under the reimbursement method, a school must disburse Direct Loan Program funds to eligible students and parents before requesting funds from ED.

- ✦ Generally, ED places a school on the reimbursement payment method if it determines that there is a need to strictly monitor the school's participation in the Title IV programs.

A school cannot request more cash than the amount that it has actually disbursed to these eligible students and parents. As part of the school's request, the school must identify the students and parents for whom it is seeking reimbursement and submit documentation demonstrating that each student and parent included in the request was eligible to receive and has received the Direct Loan funds for which reimbursement is requested.

Laws & Regulations

- 34 CFR 668.162(d)

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Cash Monitoring Payment Method

Laws & Regulations

- 34 CFR 668.162(e)

Like the reimbursement method, under the cash monitoring payment method, a school must first make disbursements to eligible students and parents before it requests or receives funds from ED. Under this method, ED may provide funds to a school without the school providing specific documentation of each student to whom the school has made a disbursement. ED may tailor the documentation requirements on a case-by-case basis.

Maintaining and Accounting for Funds

Laws & Regulations

- 34 CFR 668.163(a)(1)

All Direct Loan schools must maintain a bank account into which ED transfers or the school deposits Direct Loan funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of Direct Loan funds in the account.

- A school is not required to maintain a separate account for Direct Loan funds unless ED specifies otherwise.
- Although Direct Loan funds may be kept in the same account with other Title IV funds, ED recommends that a separate account be established for Direct Loan funds. This separation of funds will help the school's cash management of Direct Loans.

Bank Account Notification Requirements

Laws & Regulations

- 34 CFR 668.163(a)(2)

For Your Information

The requirement that schools file a UCC-1 statement when the name of their bank account does not include the words "federal funds" was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit.

A school receiving Direct Loan funds must notify its bank that the account contains federal funds and keep a record of this notice in the school's record-keeping system, or the school must ensure that the account's name includes the phrase "Federal Funds."

- Except for public institutions, schools must file a UCC-1 statement with their state or municipal governments disclosing that the account contains federal funds. Schools must keep a copy of the UCC-1.
  - Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from this requirement.

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However, ED may require that Direct Loan funds be maintained in a separate account. Such a requirement may be imposed if ED determines that:

- Direct Loan cash balances are not readily identifiable,
- interest or investment income earned from Direct Loan funds is not identified,
- financial records are not maintained on a current basis,
- Direct Loan transactions are not accurately reflected and reconciled at least monthly, or
- the school fails to comply with federal record-keeping and reporting requirements.

Laws & Regulations

- 34 CFR 668.163(b)

Interest-Bearing or Investment Account

Laws & Regulations

- 34 CFR 668.163(c)

Except in the instances discussed below, the account in which Direct Loan Program funds are deposited must be an interest-bearing account or an investment account. An investment account must consist predominately of low-risk, income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on Direct Loan program funds maintained in an interest-bearing account or an investment account that exceeds $250 a year must be remitted to ED at least once a year. A school may keep up to $250 a year of the interest or investment revenue earned to pay for the administrative expense of maintaining an interest-bearing account.

A school is not required to maintain Direct Loan Program funds in an interest-bearing account if one of the following situations applies:

- In the prior award year, the school received less than $3 million in Title IV funds and anticipates that it will not receive more than that amount in the current award year.
- The school demonstrates by its cash management practices that it will not earn over $250 in interest by maintaining the total amount of Title IV funds received during the award year in an interest-bearing account.

- The school requests these funds under the just-in-time payment method.
  - Schools that request funds under the just-in-time payment method are exempt because this method ensures the expeditious accounting and disbursement of program funds. Therefore, little or no interest is earned on funds provided to the school.

If a school is not required and does not choose to maintain a separate account for Direct Loan funds, it must maintain accounting and internal control systems that:

- identify the balance of Direct Loan funds that are included in the school's bank or investment account as readily as if those funds were in a separate account, and
- identify earnings on Direct Loan funds in the school's bank or investment account.

Laws & Regulations
- 34 CFR 668.24

A school must maintain its financial records in accordance with the record-keeping requirements in the Title IV General Provision regulations.

Any differences among these records should be resolved.

Excess Cash

Laws & Regulations
- 34 CFR 668.166

Excess cash is any amount of Direct Loan funds that a school does not disburse to students or parents by the end of the third business day after the school received the funds from ED. Except as described in the next section on tolerances, a school must promptly return to ED any amount of excess cash in its bank account.

Tolerances

Laws & Regulations
- 34 CFR 668.166(b)

If a school draws down Direct Loan funds in excess of its immediate cash needs, the school may maintain the excess cash balance in its bank account only under the following situations:

- During peak enrollment periods, a school may maintain excess cash in amounts of less than 3 percent of the school's total prior-year drawdowns.
- For periods other than peak enrollment, a school may maintain excess cash in amounts of less than 1 percent of the school's total prior-year drawdowns.

For both these tolerances, a school must the eliminate excess cash balance by disbursing funds to students or parents within seven calendar days.

- This means the school has a minimum of 10 calendar days to eliminate excess cash that qualifies under tolerance rules—the three business days plus the seven calendar days.

Note: Standard Origination schools and Origination Option 1 schools receive funds that are borrower specific. These schools cannot disburse funds to any borrower other than the borrower for whom the funds were intended.

A period of peak enrollment occurs when at least 25 percent of a school's students start classes during a given 30-day period. Schools use the following steps to calculate the percentage of students who start classes within such a 30-day period:

Laws & Regulations

- 34 CFR 668.166(b)(2) & (3)

Step 1. Determine the number of students who started classes during the 30-day period in the prior award year.

Step 2. Determine the total number of students who started classes during the entire prior award year.

Step 3. Divide the number in Step 1 by the number in Step 2.

Step 4. Multiply the result in Step 3 by 100.

To determine total prior-year drawdowns, a school considers all Title IV funds, including Direct Loans. Direct Loan schools may also include prior year FFEL Program loans in their calculations.

Liabilities

ED uses two types of sanctions against a school that maintains excess cash in its account.

Laws & Regulations

- 34 CFR 668.166(c)

✦ ED may require the school to reimburse the government for c incurred by having excess funds held by the school.

✦ ED may take action to fine, limit, suspend, or terminate the school's participation in one or more Title IV programs.

If there is a finding that a school has maintained excess cash, ED exam a school's disbursement practices. ED considers a school to have issu check on the date it cleared the bank, unless the school demonstrates t issued the check shortly after it wrote the check.

Reference

- Treasury Financial Manual (TFM) bulletin

ED has established procedures for calculating institutional liability in e cash situations. Under these procedures, institutional liability is equal t the difference between the earnings any excess cash would have genera if invested under the applicable current value of funds rate and the act interest earned on those funds. The current value of funds rate is an annual percentage rate, published in a Treasury Financial Manual (TFM bulletin that reflects the current value of funds to the U.S. Department Treasury.

Idle Cash

Cash that has been disbursed becomes idle cash if and when it is returned to the school's Title IV account(s). This return may be due to a refund o other circumstances. For example, a student might receive a disbursem but later decide to return all or a portion of the loan and return the fun to the school.

Laws & Regulations

- 34 CFR 668.166(b)

A school may maintain idle cash in its federal bank account for up to se calendar days to disburse it to, or on behalf of, the student. An Origina Option 2 school also may disburse idle cash to other borrowers. Provisions concerning excess cash in 34 CFR 668.166(b) do not apply to idle cash.

Returning Direct Loan Funds

The procedures that a Direct Loan school uses to return funds depend on whether the funds are returned by the school:

- to comply with the HEA or applicable regulations (for example, dealing with excess cash or a refund) or
- as a payment on the borrower's account for any other reason (for example, they are being returned by the school at the request of a borrower).

In general, when loan funds are returned by a school to comply with the HEA or applicable regulations, the loan fee and any interest that has accrued on all or the appropriate portion of the funds is returned. When funds are returned as a payment by a school, and it is more than 120 days after they were disbursed, the borrower still must pay the loan fee and interest on the amount.

Take a Look

See page 10-11 for timelines for cash returns to the Direct Loan Program.

Returning Funds to Comply with Regulations

A school returning funds to comply with Title IV regulations may return the funds by ACH or FEDWIRE or by check.

- If the funds are returned by ACH or FEDWIRE, the beneficiary section of the wire includes the school's Direct Loan school code, the program year, and the words "Excess Cash" (for example, "G00000 Year 4 Excess Cash"). Funds are sent electronically to Compass Bank in Birmingham, Alabama, at:

  ABA Number: 062001186
  Account Number: 70726726

- If the funds are returned by check, the check should be made payable to the U.S. Department of Education. It should be accompanied by a completed "Excess Cash/Borrower Payment Transmittal" (or comparable information) and sent to:

  Loan Origination Center
  Attn: Excess Cash
  P.O. Box 2011
  Montgomery, AL 36102-2011

When idle cash is returned to comply with the HEA or applicable regulations (or because a borrower is returning loan money 120 days after the disbursement date), the school also makes an electronic adjustment to the borrower's disbursement records.

Returning Funds as a Payment

When a school returns funds as a payment for a borrower 120 days or after the disbursement date, it follows the same procedure used to ret funds to comply with regulations, which is described in the previous section. In all other cases, when sending payments to borrowers' acco schools should mail checks to:

Direct Loan Servicing Center
ATTN: Payment Center
P.O. Box 746000
Atlanta, GA 30374-6000

It's important that schools write borrowers' loan ID numbers on checl and include the "Excess Cash/Regular Payment Transmittal" (or comparable information).

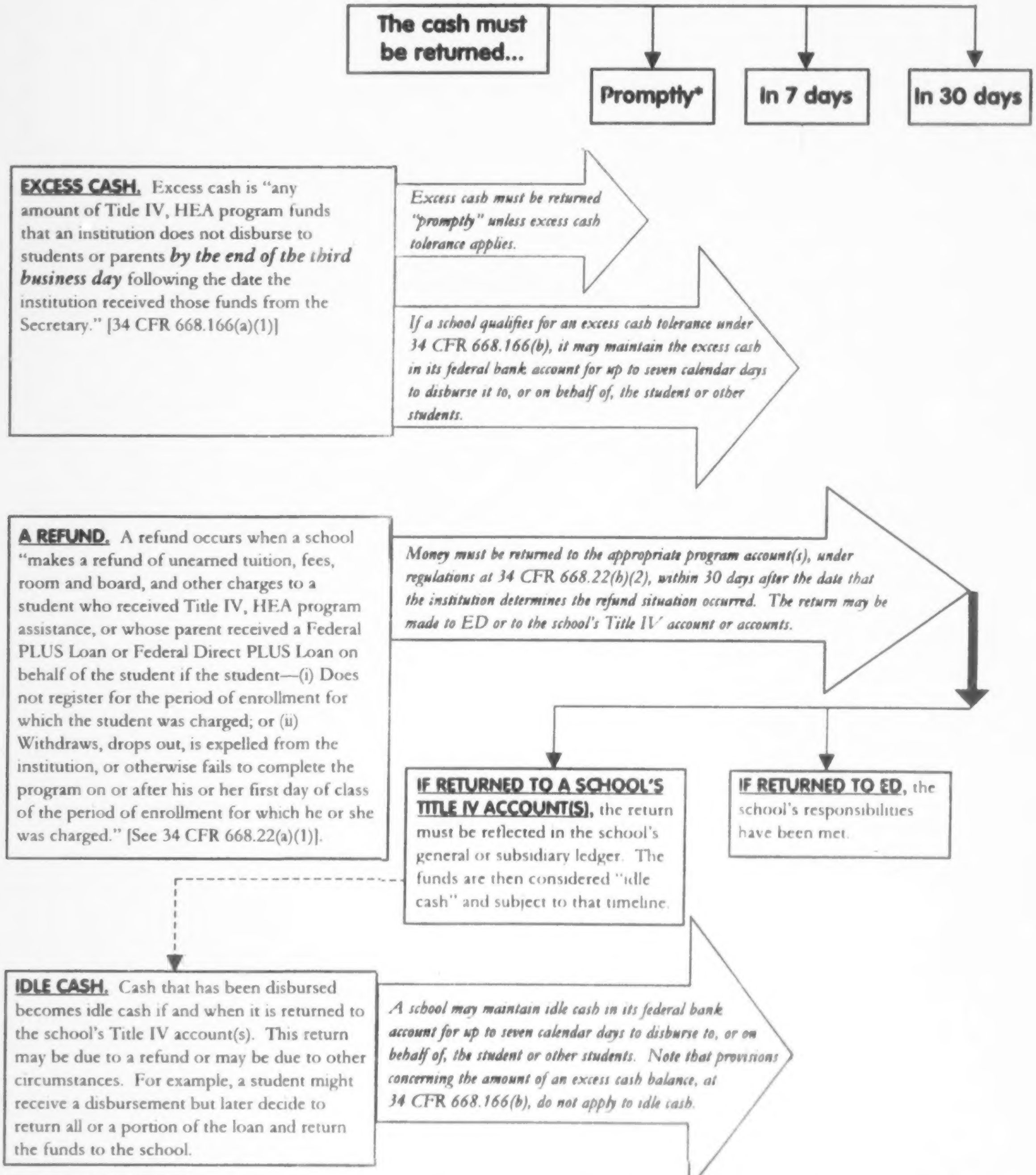
Reference

- Direct Loan Bulletins 97-33 and 98-01

See Direct Loan Bulletins 97-33 and 98-01 for additional guidance on returning funds to ED.

Cash Return Timelines

(The guidance below generally applies to Direct Loan, Pell, FSEOG, Perkins, and FWS funds. FFEL timelines for disbursing funds are slightly different; they are described at 34 CFR 668.167.)



The cash must be returned...

Promptly*

In 7 days

In 30 days

EXCESS CASH. Excess cash is "any amount of Title IV, HEA program funds that an institution does not disburse to students or parents ***by the end of the third business day*** following the date the institution received those funds from the Secretary." [34 CFR 668.166(a)(1)]

Excess cash must be returned "promptly" unless excess cash tolerance applies.

If a school qualifies for an excess cash tolerance under 34 CFR 668.166(b), it may maintain the excess cash in its federal bank account for up to seven calendar days to disburse it to, or on behalf of, the student or other students.

A REFUND. A refund occurs when a school "makes a refund of unearned tuition, fees, room and board, and other charges to a student who received Title IV, HEA program assistance, or whose parent received a Federal PLUS Loan or Federal Direct PLUS Loan on behalf of the student if the student—(i) Does not register for the period of enrollment for which the student was charged; or (ii) Withdraws, drops out, is expelled from the institution, or otherwise fails to complete the program on or after his or her first day of class of the period of enrollment for which he or she was charged." [See 34 CFR 668.22(a)(1)].

Money must be returned to the appropriate program account(s), under regulations at 34 CFR 668.22(b)(2), within 30 days after the date that the institution determines the refund situation occurred. The return may be made to ED or to the school's Title IV account or accounts.

IF RETURNED TO A SCHOOL'S TITLE IV ACCOUNT(S), the return must be reflected in the school's general or subsidiary ledger. The funds are then considered "idle cash" and subject to that timeline.

IF RETURNED TO ED, the school's responsibilities have been met.

IDLE CASH. Cash that has been disbursed becomes idle cash if and when it is returned to the school's Title IV account(s). This return may be due to a refund or may be due to other circumstances. For example, a student might receive a disbursement but later decide to return all or a portion of the loan and return the funds to the school.

A school may maintain idle cash in its federal bank account for up to seven calendar days to disburse to, or on behalf of, the student or other students. Note that provisions concerning the amount of an excess cash balance, at 34 CFR 668.166(b), do not apply to idle cash.

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*A "prompt" return of excess cash is one that is made in a timely manner. The timetable for returning cash "promptly" may vary slightly from school to school, but a school is generally expected to return the excess cash within two or three days.

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Direct Loans

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School Guide

Chapter 11: Student Status Confirmation Report (SSCR)

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Chapter 11

Student Status Confirmation Report (SSCR)

Basic Information

Federal regulations require schools to report to the U.S. Department of Education (ED) on the current enrollment status of students receiving federal education loans. The accuracy of the data schools report plays a large part in keeping Direct Loan records and other federal loan records accurate and up to date. The reason: Students' enrollment status is key to establishing their loan status, including determining graduation dates, deferment privileges, and grace periods.

To comply with the federal requirement to update and provide current enrollment information, schools or their servicers use the electronic Student Status Confirmation Report (SSCR). The SSCR is a function in ED's centralized National Student Loan Data System (NSLDS), which tracks and monitors all Title IV student loan recipients. NSLDS sends SSCR Rosters to schools or their servicers through the Title IV Wide Area Network (Title IV WAN).

- ✦ Part of the Direct Loan amendment to a Program Participation Agreement with ED says that the school will sign up for Title IV WAN's Direct Loan functions. The school also needs to designate a contact person at the school for SSCR-related matters.

A school may use ED's PC-based SSCR software to report updates using batch processing, or it may make online updates directly to the NSLDS database. A school also has the option of hiring a third-party servicer to handle its SSCR reporting.

To meet SSCR requirements, a school or its third-party servicer must correctly match enrollment records with the records sent by NSLDS, confirm or update student enrollment status and other student information (including permanent addresses), correct any errors, and return the confirmed or corrected SSCR updates to ED.

Laws & Regulations

- 34 CFR 685.309(b)

Where to Call

- NSLDS Customer Service at 1-800-999-8219 from 8 am to 8 pm (ET).

Reference

- *SSCR User's Guide*
- DCL-GEN-99-9
- DCL-GEN-96-5
- DCL-GEN-96-17

Web site

- http://ifap.ed.gov

Laws & Regulations

- 34 CFR 668.25(c)(3)

For Your Information

When school responsibilities are discussed in this chapter, it means that the responsibilities can be met by a school or its servicer.

ED helps schools fulfill SSCR requirements by publishing a *SSCR User's Guide.*

- Schools can order the *SSCR User's Guide* from NSLDS Customer Service.
- The SSCR process has also been the subject of several of ED's "Dear Colleague" Letters (DCLs), which are available on ED's Web site.

Using a Third-Party Servicer

If a school uses a third-party servicer to perform the SSCR function on its behalf, the school:

- must indicate in its Title IV WAN Participation Agreement (or otherwise report to ED) what servicer is handling its SSCR;
- should understand that the servicer is the destination point for receiving and sending all SSCR data–none of the SSCR data will be sent to the school; and
  - Using a servicer doesn't mean, however, that the school can't go online with NSLDS. It can. The school is still able to use functions such as Borrower Tracking, Financial Aid Transcript, Overpayment, and Organization Contact screens.
- needs to coordinate online updates with its servicer to ensure that updates are applied in the correct order.

A third-party servicer has the same SSCR responsibilities as the school for which it is working. When choosing a servicer, a school should keep in mind that both the school and the third-party servicer are equally responsible and severally liable for any regulatory requirements that aren't met. If requirements aren't met, both the school and the third-party servicer could be subject to administrative actions by ED.

School Requirements

Federal law requires all Title IV schools—including Direct Loan schools—to verify and/or complete and return any SSCR that ED sends it.

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Receiving and Sending the SSCR

Schools can update SSCR information in NSLDS either by batch processing or online.

- Batch Method—This allows a school to receive a single electronic SSCR file, fully process it in its computing environment, and transmit the SSCR data back to NSLDS—again as a single file.
- Online Method—This method allows a school to update the enrollment data directly by accessing NSLDS online. Online access is available through the 3270 Emulator (previously NetConnect) found in the EDconnect communications software provided to schools by ED.

In some circumstances, there are advantages to using the online method:

- If a school needs to correct just a few student records on a previously submitted SSCR or to make an ad hoc report about a change in student status, online updating works well.

Take a Look

See page 11-8 for details about ad hoc reports.

SSCR Roster Files can be processed on a personal computer (PC). The SSCR software that is part of the Title IV WAN package can display the SSCR Roster File records one at a time for updating and building the SSCR Submittal File to transmit back to NSLDS through Title IV WAN. The file can be worked on off-line (that is, without being connected to NSLDS) and transmitted when it's completed.

For information about using the SSCR software, call ED's Central Processing System (CPS) Customer Service at 1-800-330-5947. To order the 32-bit SSCR software (available in the latter part of 1999), the number to call is 1-800-615-1189.

☎ **Where to Call**

- SSCR software, 1-800-330-5947
- 32-bit SSCR software (available in the latter part of 1999), 1-800-615-1189.

Types of SSCR Files

Three files are associated with an SSCR cycle:

- SSCR Roster File,
- SSCR Submittal File, and
- SSCR Error Notification File.

If NSLDS finds errors in a school's SSCR Submittal File, the school will need to create a fourth type of file, an SSCR Error Correction File. The school completes this file and sends it to NSLDS.

SSCR Roster Files

When ED sends an SSCR Roster File to a school, it contains a list of borrowers who are recorded in the NSLDS database as being enrolled at that school or as having withdrawn from that school in the past six months. Each student is given one of these six statuses:

F—full time

G—graduated

H—half time

L—less than half time

A—authorized leave of absence

W—withdrawn

Students who a school previously reported to NSLDS as having a "G" or "W" enrollment status remain in the school's SSCR Roster File for 180 calendar days from the reported date of graduation/withdrawal.

SSCR Submittal Files

Within 30 calendar days of the date the SSCR Roster File is placed in a school's Title IV WAN electronic mailbox, the school must review the data, make any needed changes, and send NSLDS an SSCR Submittal File through Title IV WAN. NSLDS retrieves the updated SSCR Submittal File from the school's Title IV WAN electronic mailbox.

Detail Records

Information on each student in the SSCR Roster File is listed in a Detail Record. The record contains basic student identifiers, as well as enrollment status information.

Each student's Detail Record contains the following student identifiers:

- Social Security number (SSN) (also called a record identifier),
- last name,
- first name (also called a record identifier),
- middle initial, and
- date of birth (also called a record identifier).

The school reviews each student Detail Record to make sure it is correct. To do this, information in the Detail Record must be matched to the student's records in the school's registration system.

- If the school determines that any of the provided student identifier data is outdated or incorrect, it updates the field (or fields) and adds the prefix "New."
- If a school uses its own student identifier numbering system to identify students in school registration records, it can enter that number in the School Identification Designator field that NSLDS provides specifically for this type of number. Schools may not change a student's SSN to make it match the school's student identifier number.

Each Detail Record also contains an enrollment-status review consisting of three enrollment-related fields that must be reviewed and, if needed, updated. The fields give:

- a student's anticipated completion date,
- the student's enrollment-status code, and
- the date the student's enrollment status became effective.

Updating the SSCR Roster File

In addition to verifying the five basic student identifiers and enrollment-status data listed earlier on this page, a school also might need to add information about students who are at the school, have Direct Loans, and do not appear in the SSCR file.

For Your Information

NSLDS uses a combination of three data items to match NSLDS's records with records sent from schools and other data providers. These items (SSN, first name, and date of birth) are called "record identifiers."

- Students enrolled at the school, who receive Direct Loans, and who do not appear on the SSCR Roster File need to be added to the SSCR Submittal File the school sends to NSLDS.

If schools are not using ED's SSCR software, all updates made in the SSCR Submittal File should be run through an error-checking or editing routine.

Reference

- *SSCR User's Guide*

- Any data that a school adds to the SSCR file or changes in the SSCR file must be formatted according to the record layout and field definition specifications in the *SSCR User's Guide*.

- Each Detail Record includes a Record Sequence Number; a school should never change this number.

Overdue SSCR

A school is required to submit its SSCR Submittal File within 30 calendar days of the date the SSCR Roster File was placed in the school's TIV WAN electronic mailbox.

A school that fails to return its SSCR Submittal File within the required 30-day time frame receives an overdue letter from ED. If the school still fails to respond, subsequent overdue letters are sent at regular intervals. The letters remind the school of its SSCR obligations and that ED has various enforcement options.

- **First overdue letter**—ED sends the first overdue letter to the school's financial aid administrator and registrar when an SSCR Submittal File has not been sent to ED by the required 30-day deadline.

- **Second overdue letter**—ED sends a second overdue letter to the school's president or chief executive officer (CEO), financial aid administrator, and registrar when the SSCR Submittal File is more than 18 days past the 30-day deadline. (This is 48 calendar days after NSLDS sent the SSCR Roster File.) The letter states that failing to return the completed roster to NSLDS could result in enforcement actions against the school.

- **Third overdue letter**—ED sends a final demand letter to the school's president or CEO, financial aid administrator, and registrar a week later, when the SCCR Submittal File is more than 28 days past the 30-day deadline. (This is 58 calendar days after NSLDS sent the SSCR Roster File.) This letter notifies the school that the matter will be referred to ED's Administrative Actions and Appeals Division with a request to initiate an administrative action against the school, such as a fine or limitation, suspension, or termination action.

SSCR Error Notification Files

After NSLDS receives and processes the data in a school's SSCR Submittal File, it sends the school an acknowledgment in the form of an SSCR Error Notification File. NSLDS always generates and sends an SSCR Error Notification File in response to an SSCR Submittal File, even when there are no errors.

If There Are No Errors

If the school's SSCR Submittal File contains no errors, the SSCR Error Notification File from NSLDS contains a count of the accepted Detail Records; no Detail Records are included for correction. The school does not need to respond to the SSCR Error Notification File that NSLDS sends. The school should, however, file it as proof that the school successfully completed the required SSCR cycle. An SSCR Error Notification File listing no errors documents that the school's SSCR Submittal File is accurate and that the school has complied with SSCR requirements.

If There Are Errors

If the school's SSCR Submittal File contains errors, the SSCR Error Notification File from NSLDS contains a count of both the accepted and rejected Detail Records. The SSCR Error Notification File lists the student Detail Records that have errors (which mean they were not processed), along with the error code that applies to each record.

- An SSCR Error Notification File containing errors must be corrected and returned, as an SSCR Error Correction File, to

NSLDS within ten calendar days of NSLDS having sent the SSCR Error Notification File.

- ✦ The errors can be corrected online; this is the case even if the initial SSCR Submittal File was returned using the batch process.

If the school does not respond within the required ten days, NSLDS will continue to send the SSCR Error Notification File on a regular basis to the school until the errors are corrected or the next SSCR reporting cycle.

Take a Look

See page 11-6, for more about overdue letters and their contents.

- ✦ ED also will send the school an overdue letter (or letters) detailing enforcement actions that ED may take.
- ✦ Any unresolved errors will appear in the school's next SSCR Roster File in the next SSCR cycle; the unresolved errors and the length of time they have existed will be monitored by ED.

Ad Hoc Reports

In addition to a school responding to NSLDS using its regularly scheduled SSCR cycle, there might be times when the school is required to make interim, off-cycle reports to NSLDS. These are known as ad hoc reports.

An ad hoc report is:

- ✦ an unscheduled submittal file (created on a mainframe or on a PC) that is sent to NSLDS; it contains Detail Records for students at the school whose enrollment status has changed, or
- ✦ online updating of student records using NSLDS's SSCR functions.

Laws & Regulations

- 34 CFR 685.309(b)(2)

Any time an accepted student fails to enroll on at least a half-time basis, an enrolled student ceases to be enrolled on a half-time basis, or a student changes his or her permanent address, within 30 calendar days of learning of the change the school must notify NSLDS of the change in an ad hoc report.

For Your Information

See "Recommended Schedule" on page 11-11 for details on how to avoid the need to submit ad hoc reports.

- ✦ The exception: An ad hoc report does not need to be submitted if the school will be sending an SSCR Submittal File to NSLDS within 60 calendar days. Because of this 60-day rule, a school that has six SSCR reporting cycles a year never needs to submit ad hoc reports.

Scheduling SSCR Cycles

A school selects its own schedule for receiving SSCR Roster Files. The selection is made using NSLDS online screens.

- If a school does not select an SSCR schedule, NSLDS sends rosters every other month during the academic year.

The schedule a school selects must meet the following ED requirements:

- In a 12-month period, a school must request between two (minimum) and six (maximum) SSCR cycles.
- All reporting cycles must be at least 60 calendar days apart (or, put another way, a school may not schedule SSCR rosters for successive months).
- Regular term-based schools (semester, quarter, or trimester) must complete at least one SSCR cycle each term.
  - A summer session does not count as a term.
- Schools that do not use regular terms must complete at least two SSCR cycles each year. The SSCR cycles must be scheduled at least four months apart.
- A school may change its SSCR schedule at any time, as long as ED's requirements still are met.

Recommended Schedule

Selecting an SSCR cycle and meeting its deadlines fulfills the regulatory requirement that schools inform ED about status changes of students receiving federal student financial aid. ED's cycle scheduling advice is short and simple: "the more the better."

To this end, ED recommends that schools schedule an SSCR cycle every other month during the academic year. This schedule also eliminates the need for ad hoc reporting.

If a school cannot schedule SSCR cycles that often, ED suggests scheduling at least one or more cycles beyond the minimum requirement (which is two cycles); this reduces the amount of ad hoc reporting as much as possible.

Take a Look

See page 11-8 for details about ad hoc reporting.

- Schools might want to modify these recommendations to take heavy workload periods into account. Remember that when a school receives an SSCR Error Notification File (usually within several days of sending its SSCR Submittal File) if NSLDS notes errors, the school has ten calendar days from the date NSLDS sent the file to correct all errors and send the information to NSLDS. With the ten-day timetable, schools would, of course, want to avoid scheduling this part of the SSCR cycle at a point when their resources might be stretched to the limit.

Recommended Cycle Dates

The following table shows ED-recommended SSCR cycle dates for schools on different academic calendars.

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Recommended SSCR Cycle Dates

Semester Schools	Quarter Schools	Other Schools
September	October	October
November	December	December
January	February	February
March	April	April
May or June	June	June
n/a	n/a	August

Schools may change their schedule at any time, as long as they continue to meet the minimum of two reporting cycles a year. ED recommends that schools not change schedules when ten or fewer calendar days remain before a current SSCR cycle point.

Required Response Periods

The following chart offers at-a-glance information about required school-response times in the SSCR process.

Response Periods

NSLDS...	School then...
Sends SSCR Roster File to school.	Reviews and sends SSCR Submittal File to NSLDS **within 30 calendar days** of the date the SSCR Roster File is placed in the school's Title IV WAN electronic mailbox.
Reviews SSCR Submittal File and sends SSCR Error Notification File to school.	Reviews SSCR Error Notification File. (A) If no errors, keeps file. (B) If errors, submits Error Correction File to NSLDS **within 10 calendar days** of NSLDS sending SSCR Error Notification File.

Processing Cycle

The listing that follows describes the entire SSCR cycle, step by step, showing which participant is responsible for each step. Regardless of how many times a year a school chooses to receive SSCR reports, each SSCR cycle must include the following steps:

First Phase—Generating and Updating the SSCR

NSLDS

- Generates the SSCR Roster File for a school and
- Forwards the SSCR Roster File to the school or its servicer.

School or Its Servicer

- Receives the SSCR Roster File;
- Matches the SSCR Roster File against registration/enrollment records;
- Updates each student's enrollment status and effective enrollment-status date with valid codes;
- As needed, proposes changes to student identifiers for which the school is not the data provider (SSN, last name, first name, middle initial, and birth date);
- As needed, changes or adds student identifiers for which the school is the data provider (SSN, last name, first name, middle initial, and birth date);
- As needed, changes or adds student address data;
- As needed, for each new student adds a Detail Record to the file;
- Checks that the updated file contains valid data to reduce the likelihood that NSLDS will find errors; and
- Returns the updated SSCR Roster File, now called the SSCR Submittal File, to NSLDS within 30 calendar days of the date it is placed in the school's Title IV WAN electronic mailbox.

Second Phase—Generating and Receiving the SSCR Error Notification File

NSLDS

- Receives the SSCR Submittal File;
- Edits the SSCR Submittal File contents;
- Updates NSLDS with any enrollment-status changes;
- Captures proposed student identifier changes and new or changed address data;
- Returns the updated SSCR Submittal File, now called the SSCR Error Notification File;
  - *If there are no errors*, the file contains a count of accepted Detail Records and no Detail Records are included for correcting; the SSCR Error Notification File is sent to the school or servicer as a confirmation record for its files.

NSLDS (cont'd)

  - *If there are errors*, the file notes Detail Records containing errors, applicable error codes, and a count of accepted and rejected records; the SSCR Error Notification File is sent to the school or servicer to be corrected and returned to NSLDS.
- Forwards new and changed data to each affected data provider weekly (for Direct Loans, this is the Direct Loan Servicer); and
- Monitors the timeliness of the school or servicer's response, following up if necessary.

School or Its Servicer

- Receives the updated SSCR Error Notification File AND
- Considers the SSCR cycle complete if all records were accepted by NSLDS (it then archives the file so it can be retrieved for proof of compliance and audit purposes);

OR

- Corrects any records where errors have been identified and
- Within ten calendar days of the date the updated SSCR Error Notification File is sent to the school, it returns corrected records to NSLDS as an SSCR Error Correction File.

Third Phase—Processing the SSCR Error Correction File

NSLDS

- Receives the SSCR Error Correction File from the school;
- Edits the returned Detail Records;
- Updates NSLDS with enrollment status changes;
- Captures proposed student identifier changes and new or changed address data;
- Returns to the school for correction an updated SSCR Error Notification File, which includes any records containing errors, applicable error codes, and a count of accepted and rejected records. If there are no errors, the file contains a count of accepted records and no Detail Records to be corrected;
- Forwards the new and changed data to each affected data provider weekly (for Direct Loans, this is the Direct Loan Servicer); and
- Monitors the timeliness of the school's response, following up if necessary.

The third phase occurs only if the school's SSCR Error Notification File had NSLDS-determined errors and, because corrections are needed, the school must return an SSCR Error Correction File.

School or Its Servicer

- Receives the updated SSCR Error Notification File;
- Considers the SSCR cycle complete if all records were accepted by NSLDS (it archives the file so it can be retrieved for proof of compliance and audit purposes);

OR

- Corrects any records where errors have been identified;
- Within ten calendar days of the date the updated SSCR Error Notification File is sent to the school, returns the corrected records to NSLDS as an SSCR Error Correction File; and
- Receives an updated SSCR Error Notification File from NSLDS.
  - If the SSCR Error Notification File has no errors, the school keeps it on file.
  - If the SSCR Error Notification has errors, this Third Phase repeats until there are no errors or the next SSCR cycle begins.

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Next SSCR Cycle

NSLDS begins the next scheduled SSCR cycle by generating a new SSCR Roster File. The file reflects all changes applied from the last SSCR cycle, any ad hoc reporting, and any unresolved errors from the previous cycle.

The SSCR User's Guide and Customer Support

Reference

- *SSCR User's Guide*

For more detailed information about SSCRs and the SSCR process, schools can reference the *SSCR User's Guide.* It also contains:

- an overview of NSLDS,
- a discussion of how SSCR data is used,
- record layouts,
- instructions on using NSLDS online functions, and
- information on problem resolution.

☎ **Where to Call**

- NSLDS Customer Service, 1-800-999-8219 from 8 am to 8 pm (ET).

To receive a copy of the *SSCR User's Guide*, contact NSLDS Customer Service at 1-800-999-8219.

NSLDS Customer Support also can provide information about the SSCR process and answer SSCR-related questions.

Direct Loans

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THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Chapter 12: Servicing Direct Loans

Servicing Direct Loans

Chapter 12

In general, up until the point a loan is "booked," the Direct Loan Program's Loan Origination Center (LOC) is responsible for loan activities (including sending loan disclosure statements) and interacting with borrowers. Once a Direct Loan is booked, the Direct Loan Servicing Center (DLSC) becomes responsible for loan activities (including collecting loans) and interacting with borrowers.

Put another way, the LOC handles front-end processes for the Direct Loan Program, and the DLSC handles back-end processes. The dividing point is when a loan is booked.

For Your Information

A Direct Loan is booked (becomes official) at the point when the LOC has received and accepted a borrower's:

- loan origination record,
- signed promissory note, and
- disbursement record.

Direct Loan Servicing Center (DLSC)

As the Direct Loan Servicing Center's (DLSC's) name implies, its primary purpose is to service existing Direct Loans.

The DLSC has a Web site that provides Direct Loan borrowers with general loan servicing information (such as answers to frequently asked questions), borrower-specific information (such as direct access to account information), and an interest calculator.

Web Site

- http://www.dlservicer.ed.gov

In addition to Web page information and interactions, the DLSC's responsibilities include:

- contacting students after the initial Direct Loan disbursement to provide a welcome letter containing additional loan information;
    - The letter provides a student's loan ID number, type of loan(s)—subsidized and/or unsubsidized, school name, expected graduation date, borrower account number, total indebtedness, approved loan amount, loan fee, net proceeds, and date of disbursement. Information on repayment plan options, loan consolidation, and borrower services also is provided.

- applying and capitalizing accrued interest, applying fees, and maintaining correct borrower account balances;
- creating borrower-specific exit counseling materials;
- on a daily basis, recording all Direct Loan payments received and applying payments to borrowers' accounts;
- tracking and researching any unapplied payments;
- tracking Direct Loans through borrowers' in-school periods and grace periods and converting loans to repayment status at the proper time;
- processing Direct Loan borrowers' deferment and forbearance requests;
- reporting Direct Loan information to the National Student Loan Data System (NSLDS);
- collecting and analyzing all information needed to support Direct Loan borrowers' repayment plan choices;
- performing comprehensive Direct Loan collection activities, including billing, letter writing, telephoning, skip tracing, and borrower tracking activities; and
- repaying collected Direct Loan proceeds to the U.S. Department of Treasury.

Take a Look

See Appendix A, page A-4, for a detailed listing of DLSC phone numbers. DLSC hours are 8 am to 8:30 pm (ET).

☎ **Where to Call**

The phone number for the DLSC's borrower services department is 1-800-848-0979.

Most of the DLSC's communications with borrowers deal with:

- loan disbursement notifications,
- repayment options (including selecting, changing, and postponing repayment), and
- account information (monthly billings, quarterly interest statements, and annual statements).

Loan Disbursement Notifications

The school is the borrower's primary contact up to the time a Direct Loan is disbursed.

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After the LOC receives an electronic disbursement record from the school that it has disbursed loan funds to a borrower, the LOC sends an electronic record of the disbursement to the DLSC.

At that point, the DLSC contacts the borrower and begins a relationship that continues until the borrower fully repays the loan. Within three business days of receiving the booking transaction, the DLSC mails the borrower a welcome letter.

Take a Look

See page 12-1 for information about the contents of a welcome letter.

If the borrower hasn't received the loan proceeds, he or she should contact the school. If the borrower has questions about the loan, he or she should contact the DLSC.

Repayment Options

The DLSC helps borrowers select and, when needed, change repayment plans.

The DLSC does this by providing exit loan-counseling support to schools and working directly with borrowers.

Selecting a Repayment Plan

The Direct Loan Program offers four repayment plan options.

Take a Look

See Chapter 2 for details about repayment plans.

In addition, an alternative repayment plan is available on a case-by-case basis for borrowers with exceptional circumstances.

A Direct Loan borrower may select the:

- Standard Repayment Plan,
- Extended Repayment Plan,
- Graduated Repayment Plan, or
- Income Contingent Repayment Plan.

A Direct PLUS Loan borrower, however, may select any plan except the Income Contingent Repayment Plan.

Take a Look

See Chapter 3 for details about exit counseling requirements.

Student Borrowers

The DLSC makes repayment plan information available to student borrowers primarily through materials it provides to schools for use during exit counseling.

In addition to general counseling materials, schools can choose to receive borrower-specific exit counseling packages from the DLSC. Each student's package uses the student's personal loan history to compute how much he or she would pay each month under each of the repayment plan options. Monthly repayment amounts are calculated for three of the four repayment plan options. (ICR repayments cannot be calculated without income information.)

A school arranges for the DLSC to send borrow-specific exit counseling packages by contacting the LOC.

- The school notifies the LOC that it would like to receive exit counseling packages for its graduating borrowers. The school also specifies when it would like to receive the packages, for example, 30, 60, or 90 days before graduation.
- The LOC then monitors the completion/graduation dates of the students and assembles information needed for exit counseling.
- The DLSC prepares the personalized exit counseling packages and sends them to the school at the specified time.

A school needs to request exit counseling packages only once. The DLSC continues sending them to the school for all graduating Direct Loan borrowers unless the school asks the LOC that packages no longer be sent.

When student borrowers begin a grace period, they receive a mailing saying they have 60 days in which to select a repayment plan. If the DLSC doesn't receive a borrower's plan selection by the 60th day of the grace period, it sends another mailing to the borrower asking him or her to select a repayment plan. If a borrower still doesn't select a plan, 60 days before the borrower's grace periods ends, the DLSC automatically places the borrower on the Standard Repayment Plan.

Parent Borrowers

Parent Direct PLUS Loan borrowers receive a mailing from the DLSC that explains their repayment plan options and gives borrower-specific repayment information. If parents don't select a repayment plan, the DLSC automatically places them on the Standard Repayment Plan.

Changing Repayment Plan

The Direct Loan Program allows borrowers the flexibility of switching repayment plans. ·For information on switching plans or to switch plans, borrowers contact the borrower services department at the DLSC.

A borrower repaying a defaulted loan under the Income Contingent Repayment Plan may not switch plans unless he or she:

- was required to make, and did make, a payment under the Income Contingent Repayment Plan in each of the preceding three months or
- was not required to make payment but made three "reasonable and affordable" payments in each of the three preceding months.

Loan Consolidation

The DLSC's consolidation department works with student and parent borrowers who have consolidated their federal education loan repayments into one monthly payment. Borrowers can combine their Direct Loans, Federal Family Education Loan (FFEL) Program loans, and certain other federal education loans into Direct Consolidation Loans.

- While the LOC's consolidation department originates consolidation loans, the DLSC's consolidation department services them.

Take a Look

- See Chapter 2 for details about switching repayment plans.
- See Chapter 3 for details about borrowers with defaulted loans.

For Your Information

Certain borrowers are required to make payments under the Income Contingent Repayment Plan. These are borrowers repaying consolidation loans that include a previously defaulted loan. They may *not* switch their repayment plan unless specific requirements are met.

Take a Look

See Chapter 2 for details about Direct Consolidation Loans.

Where to Call

The phone number at the LOC for information about consolidation is 1-888-557-7392.

The phone number at the DLSC for information about consolidation is 1-800-848-0979.

Postponing Repayment—Deferment and Forbearance

During the repayment period, student and parent borrowers can ask the DLSC to allow them to postpone paying on a Direct Loan through a deferment or a forbearance.

- ✦ *Deferment* is a period of time during which repaying loan principal is temporarily postponed. If the loan is a Direct Subsidized Loan or Direct Subsidized Consolidation Loan, no interest is charged to the borrower while the loan is in deferment. On all other Direct Loans, interest is charged during deferment.
  - ✧ There are specific regulations that qualify a borrower for deferment.
  - ✧ A Direct Loan borrower qualifies for a deferment when he or she is:
    - enrolled at least half-time at an eligible school,
    - pursuing an eligible course of study in an eligible graduate fellowship program,
    - pursuing a rehabilitation training program for disabled individuals,
    - conscientiously seeking, but unable to find, full-time employment (not to exceed three years), or
    - experiencing, or will experience, economic hardship (not to exceed three years).
  - ✧ A Direct Loan borrower may be eligible for additional deferments if, at the time the borrower obtained his or her first Direct Loan, the borrower had an outstanding balance on a FFEL Program loan made before July 1, 1993.

Take a Look

See Chapter 2 for details about when deferment and forbearance may be granted

- ✦ *Forbearance* is an arrangement to postpone or reduce the amount of a borrower's loan payment amount for a limited and specified period. During forbearance, interest is charged on all Direct Loans.
  - ✧ A Direct Loan borrower qualifies for forbearance when he or she is willing but unable to make scheduled loan payments. Forbearance can take one of two forms: either the borrower makes no payments, or the borrower makes smaller payments

For Your Information

During delinquent-loan collection, the DLSC notifies borrowers about their deferment and forbearance options.

than originally scheduled. Forbearance is granted if the borrower:

- is unable to make scheduled payments due to poor health, temporary financial hardship, or other acceptable reasons,
- serves in a medical or dental internship or residency program,
- serves in a position under the National and Community Service Trust Act of 1993, or
- has a monthly debt burden for all federal Title IV student loans that equals or exceeds 20 percent of his or her total monthly gross income (not to exceed three years).

When interest is charged during deferment or forbearance periods, the borrower can choose to pay the interest during the period or have it capitalized (adding the unpaid interest to the principal balance) at the end of the period.

Borrowers apply for deferment or forbearance using ED forms they get from the DLSC, schools, or the DLSC's Web site.

- **Direct Loan Servicing Center.** Borrowers contact the DLSC and request a deferment form or a forbearance form. The DLSC enters borrower-specific information at the top of the form and, within three business days of receiving the request, sends the partially completed form to the borrower. The borrower completes the form and returns it to the DLSC.
- **Schools.** Many schools keep a supply of ED deferment forms and forbearance forms in the financial aid office. If a borrower uses a form that comes from a school aid office, he or she needs to fill in the borrower-specific information at the top of the form, complete the form, and send it to the DLSC.
- **DLSC's Web site.** Deferment forms and forbearance forms are posted on the DLSC Web site. A borrower needs to fill in the borrow-specific information at the top of the form and complete the form as instructed. The borrower then prints out the form and sends it to the DLSC.

Borrowers who apply for deferment or forbearance on a loan are responsible for providing the DLSC with all the information and documents needed to establish eligibility.

For Your Information

As of the 1998 amendments to the HEA, a forbearance period of up to 60 days may be granted when a borrower requests:

- a deferment,
- a forbearance,
- a repayment plan change, or
- a consolidation loan.

Interest that accrues during this period is *not* capitalized.

Take a Look

See Chapter 2 for details about capitalizing interest.

Where to Call

Borrowers can call the DLSC at 1-800-848-0979 to request deferment or forbearance forms.

Web Site

- http://www.dlservicer.ed.gov

Once the DLSC receives a deferment form or a forbearance form and any accompanying documents, it reviews the form to make sure it is accurate and fully completed. If the DLSC needs additional information, it contacts the borrower.

The DLSC notifies the borrower whether a deferment or forbearance has been granted.

Delinquency and Default

☎ **Where to Call**

The phone number for the DLSC's delinquent accounts and collections department is 1-800-848-0981.

As the payment center for the Direct Loan Program, the DLSC handles loan collection efforts on Direct Loans, including delinquent loans and defaulted loans. To help prevent borrowers from becoming delinquent or going into default, the DLSC offers information about and assistance with deferment, forbearance, and other repayment plan options.

- If a borrower is delinquent, loan collection efforts continue until:
    - the account is brought current,
    - deferment or forbearance is approved, or
    - the account is transferred to ED's Debt Collection Service (DCS) on day 360 of delinquency.

For Your Information

The 1998 amendments to the HEA changed the definition of default from 180 days delinquent to 270 days delinquent. As a result, delinquent accounts are now transferred to DCS when loans are 360 days delinquent. The transfer used to take place when loans were 270 days delinquent.

The DLSC also provides Direct Loan schools with a listing of borrowers who are delinquent on Direct Loans.

Discharged Loans

Take a Look

See Chapter 2 for details about discharging loans.

Direct Loans may be discharged (the borrower is released from the obligation of repaying a loan) for the following reasons:

- the borrower becomes totally and permanently disabled,
    - This cannot be for a condition that existed at the time the borrower applied for a loan, unless a doctor certifies that the condition substantially deteriorated after the loan was made.
- the borrower was unable to complete a course of study because the school closed or because the borrower's eligibility was falsely certified by the school,

- the borrower was entitled to have all or a portion of his or her Direct Loan proceeds refunded to the Direct Loan Program, but the school failed to do so,
- the borrower's obligation to repay a loan is discharged in bankruptcy (in rare cases), or
- the borrower dies.
    - In the case of a parent's Direct PLUS Loan, the loan is discharged if the student for whom the parent borrowed the loan dies *or* if the parent borrower dies.

A borrower may not avoid repaying loans because he or she did not complete the program of study (for reasons other than school closure or false certification of loan eligibility), did not like a school or program of study, or did not obtain employment after completing his or her studies.

The DLSC handles processing and paperwork for loans that are canceled or discharged.

Account Servicing Statements

The Direct Loan Servicing Center prepares and mails a variety of statements to student and parent borrowers to keep them updated on loan status.

Monthly Billing Statements

Borrowers may make their loan payments using a monthly billing statement mailed to them by the DLSC. Each monthly billing statement lists the current outstanding principal balance, current amount due, and any past due amounts.

Borrowers repaying loans may choose to receive a monthly billing statement or to have their payments transferred electronically through an electronic debit account (EDA).

Take a Look

See Chapter 2 for details about capitalizing interest.

Quarterly Interest Statements

During in-school, grace, deferment, and forbearance periods, the DLSC mails quarterly interest statements to all Direct Unsubsidized Loan borrowers. Similar statements are sent to Direct PLUS Loan borrowers during deferment and forbearance periods. Statements list the interest paid by the borrower during the last quarter, the interest accrued during the last quarter, and the outstanding principal balance. Borrowers are informed that they have the choice of paying accrued interest as it accumulates or postponing payment until later. Any accrued interest that is paid later will be capitalized (added to the principal balance at the end of the period).

Annual Statements

The DLSC prepares and mails an annual loan statement to every Direct Loan borrower. The annual statements provide the borrower's:

- account activity for the year (opening balance, payments and adjustments, new loans and interest, school adjustments, capitalized interest, and ending balance), as well as
- cumulative loan information (total amount of loans, adjusted loan amount, total principal paid, total interest paid, total school adjustments, total capitalized interest, total principal balance, and total charges paid).

Problems?

If a school has a problem or a complaint about the DLSC, its first step should be to contact the DLSC's school services department. If this doesn't prove satisfactory, the school contacts its regional Direct Loan Client Account Manager (CAM). The CAM researches the problem or complaint, follows up as needed, and works to resolve the issue.

- If a complaint says that DLSC collection activities are violating state or federal law, the DLSC halts collection on the account until the complaint is resolved.
- If the DLSC receives a complaint directly from a borrower, the DLSC sends a copy of the complaint to ED within three business days of receiving it.
    - Within five business days, the DLSC also sends ED a copy of its collection activity record on the account and any other relevant information ED needs to respond to the complaint.
    - Collection activity on the account isn't resumed until the complaint's resolution is approved by ED.

☎ **Where to Call**

The phone number for the DLSC's school services department is 1-888-877-7658.

Take a Look

See Appendix A, page A-2, for a list of regional lead CAMs.

Appendices

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Appendix A: Directory for the Direct Loan Program

Appendix A: Directory for the Direct Loan Program

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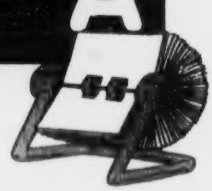
Appendix A



Directory for the Direct Loan Program

Introduction

This directory provides contact information for Direct Loan Client Account Managers (CAMs), other Direct Loan Program contacts, Direct Loan information on the Web, and Direct Loan publications.

The information is provided in formats that are easy to photocopy and distribute to staff members.

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Direct Loan Client Account Managers (CAMs)

Client Account Managers (CAMs) at the U.S. Department of Education (ED) help schools implement and operate the Direct Loan Program. They provide customer service, training, and technical assistance; they also answer questions about federal student financial aid programs and policy.

If a school has difficulties resolving Direct Loan processing issues with the Loan Origination Center (LOC), the Direct Loan Servicing Center (DLSC), or other parts of ED, the school should contact its CAM for assistance.

A list showing the lead CAM in each region, along with contact information, is on the next page.

Direct Loan
Client Account Managers (CAMs)—Regional Leads

Region	Name and Address	Phone, Email, and Fax	States Served
Region I	David Sola (Lead) 10 Causeway Street 3rd Floor, Room 341 Boston, MA 02222	phone: 617-565-6911 email: david_sola@ed.gov fax: 617-565-8636	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	Marie Carroll (Lead) 75 Park Plaza, 12th Floor New York, NY 10007	phone: 212-264-8012 email: marie_carroll@ed.gov fax: 212-264-1666	New Jersey, New York, Puerto Rico, and the U.S. Virgin Islands
Region III	Gary Smith (Lead) Wanamaker Building 100 Penn Square East, Suite 513 Philadelphia, PA 19107	phone: 215-656-5929 email: gary_smith@ed.gov fax: 215-656-5964	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia
Region IV	Connie Kaschub (Lead) 61 Forsyth Street, SW Room 18T20-A Atlanta, GA 30303	phone: 404-562-6259 email: connie_kaschub@ed.gov fax: 404-562-6283	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee
Region V	George Gevelinger (Lead) 111 North Canal St., Suite 830 Chicago, IL 60606-7206	phone: 312-886-8766 email: george_gevelinger@ed.gov fax: 312-886-6737	Illinois, Indiana, Michigan, Ohio, and Wisconsin
Region VI	Ed Farrar (Lead) 1999 Bryan Street, Suite 2735 Dallas, TX 75201-6817	phone: 214-880-2405 email: c._edwin_farrar@ed.gov fax: 214-880-2402	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
Region VII	Mark Walsh (Lead) 7505 Tiffany Springs Pkwy. Suite 500 Kansas City, MO 64153-1367	phone: 816-880-4090 email: mark_walsh@ed.gov fax: 816-891-8713	Iowa, Kansas, Missouri, and Nebraska
Region VIII	Mike Clark (Lead) 1391 N. Speer Blvd., Suite 800-A Denver, CO 80204-2512	phone: 303-844-3677 email: mike_clark@ed.gov fax: 303-844-5756	Colorado, Minnesota, Montana, North Dakota, South Dakota, Utah, and Wyoming
Region IX	Bonnie Gonzalez (Lead) 50 United Nations Plaza Room 121 San Francisco, CA 94102-4987	phone: 415-556-4201 email: bonnie_gonzalez@ed.gov fax: 415-437-8852	Arizona, California, Hawaii, Nevada, American Samoa, Guam, the Federated States of Micronesia, the Republic of Palau, the Republic of the Marshall Islands, and the Commonwealth of the Northern Marianas
Region X	Barry Shine (Lead) 1000 Second Avenue, Suite 1200 Seattle, WA 98104-1023	phone: 206-287-9840 email: barry_shine@ed.gov fax: 206-553-0800	Alaska, Idaho, Oregon, and Washington

Other Direct Loan Program Contact Information

Accounting and Financial Management Service (AFMS) Direct Loan Operations—for questions about Direct Loan payments (GAPS), monthly reconciliation (DLSAS), and program year-end closeout

fax:	—	phone:	1-202-205-6466
email:	—	hours:	8 am to 4:30 pm (ET)

Direct Loan Customer Support and Technical Support—for information about Direct Loan record layout, custom/combo school questions, support, school-created interfaces with EDExpress software, interpreting the Direct Loan technical reference, dealing with errors, and on-site support

fax:	—	phone:	1-800-330-5947
email:	cps@ncs.com	hours:	8:30 am to 8 pm (ET)

Direct Loan Origination Center—to order Direct Loan bulk forms and publications and ask questions about loan origination, alternative origination processing, promissory note processing, batch processing, reconciliation issues, and loan consolidation

fax:	1-800-557-7396	phone:	1-800-557-7392 Direct Loan Consolidation
email:	loan_origination@mail.eds.com	phone:	1-800-557-7395 Direct Loan Consolidation TTD
phone:	1-800-848-0978 School Services	hours:	8 am to 8 pm (ET)
phone:	1-800-557-7394 Applicant Services		

Direct Loan Servicing Center—for support, borrower services, payment center, and collections

fax: 1-800-848-0984

phone: 1-800-848-0979 Borrower Services

email: ———

phone: 1-800-848-0983 General TTD

phone: 1-888-877-7658 School Services

hours: 8 am to 8:30 pm (ET)

phone: 1-800-848-0981 Delinquent Accounts & Collections

Direct Loan Task Force—for questions about program development and coordination and as last resort for customer-service issues that need resolution

fax: 1-202-401-3424

phone: 1-202-708-9951

email: Direct_Loans@ed.gov

hours: 7 am to 5 pm (ET)

Additional Important Title IV Contact Information

Automated Application Ordering System (AOS)—for ordering FAFSAs and Student Guides in bulk

fax: ———

phone: 1-800-284-2788 (have your mailing list number ready)

email: ———

hours: 24 hours a day, 7 days a week

Central Processing System (CPS)—for customer service, including EDExpress software, EDE and SSCR technical references, information about data submitted to CPS, and renewal application data/year-to-date requests

fax:	1-319-358-4260	phone:	1-800-330-5947 (no charge for Direct Loan schools)
email:	cps@ncs.com	hours:	8 am to 8 pm (ET)

Customer Support Branch (at ED)—for operational and policy questions for all SFA programs and as an advocate within ED's student financial aid programs

fax:	1-202-260-4199	phone:	1-800-433-7327
email:	csb@ed.gov	hours:	9 am to 5 pm (ET)

Federal Student Aid Information Center—for general questions, single copies of federal financial aid publications, and to give to students as a general information phone number

fax:	————	phone:	1-800-433-3243 (1-800-4-FED-AID)
email:	————	hours:	8 am to 8 pm (ET)

Free Application for Federal Student Aid (FAFSA) Express—for customer service for diskette and Web versions of FAFSA Express, status checks, and modem/printer configuration questions

fax:	————	phone:	1-800-801-0576 hotline
email:	cps@ncs.com	hours:	8 am to 11 pm (ET)

Information for Financial Aid Professionals (IFAP) Web site—for IFAP Web site information and assistance

fax:	1-202-260-4199	phone:	1-800-433-7327
email:	csb@ed.gov	hours:	8 am to 5 pm (ET)

National Student Loan Data System (NSLDS)—for customer service, including support for SSCRs, default rate calculation, NSLDS online functions (including sign-up, logon assistance, password reset, and screen navigation), and computer-based training materials

fax:	1-903-457-4878	phone:	1-800-999-8219
email:	—	hours:	8 am to 8 pm (ET)

Title IV Wide Area Network (Title IV WAN/TIV WAN)—for customer service, including Title IV WAN enrollment and questions, signing up for EDE; obtaining software for EDConnect, NET*CONNECT, and OPEnet; and obtaining software manuals and user guides

fax:	1-319-339-6983	phone:	1-800-615-1189 (no charge for Direct Loan schools)
email:	t4wan@ncs.com	hours:	7 am to 10 pm (CT)

Web Sites

About Direct Loans

The U.S. Department of Education (ED) offers extensive information for Direct Loan schools and borrowers at

▶ **http://www.ed.gov/DirectLoan**

Among the material available there for **schools**:

✓ An electronic library of technical directives for financial aid administrators that can be downloaded, including the latest regulatory guidelines, Direct Loan Bulletins, "Dear Colleague" letters, Direct Loan Newsletters, and publications and guides.

✓ A link to the Grant Administration and Payment System (GAPS).

- ✓ Links to Web sites of other Direct Loan schools. (If you would like your institution's Web site added to this Direct Loan school list, send your school's name and Web site address to

  ▶ **erica_smith@ed.gov**

  OR

  ▶ **joyce_rice@ed.gov**

Among the material available there for **borrowers**:

- ✓ An electronic library of publications and applications that can be downloaded, including Direct Loan guides, Direct Loan deferment and forbearance forms, and an application for a Direct Consolidation Loan.
- ✓ FAFSA on the Web.
- ✓ Online loan account information that allows borrowers to check current loan status.
- ✓ An interactive budget calculator to help borrowers estimate how much it will cost to go to school and create a budget for school and living expenses.
- ✓ An interactive repayment calculator to show borrowers the initial monthly payments they would make under each of the Direct Loan repayment plans; it also has a Direct Consolidation Loan feature.
- ✓ Electronic entrance counseling.
- ✓ Answers to the most frequently asked borrower questions.

Suggestions? Send email to

▶ **Direct_Loans@ed.gov**

For Financial Aid Professionals

The official ED Web site for financial aid administrators and consultants is Information for Financial Aid Professionals (IFAP). It is located at

▶ **http://ifap.ed.gov**

IFAP features:

- ✓ An electronic library of financial aid information that can be downloaded, including handbooks, guides, and regulations.
- ✓ An electronic reference desk allowing financial aid professionals to contact ED's customer services, set up personalized search criteria, or join an interest group to share information.
- ✓ Links to other ED financial aid services, including information about training and an online registration page for federal student financial aid Electronic Access Conferences.

For more information or assistance, contact IFAP customer support at **1-800-433-7327** (9 am to 5 pm [ET]).

Publications

Most federal student financial aid publications are available from ED's Web site at

- ▶ **http://ifap.ed.gov**

or by calling the Federal Student Aid Information Center at

- ▶ **1-800-433-3243 (1-800-4-FED-AID)** (8 am to 8 pm [ET]).

Key Title IV Publications

- ✓ *Student Financial Aid Handbook*—the comprehensive, tell-all "bible" about federal student financial aid for school financial aid administrators
- ✓ *Compilation of Student Financial Aid Regulations*—federal regulations dealing with student financial aid, including the Student Assistance General Provisions
- ✓ *Payee Guide for the Grant Administration and Payment System (GAPS)*—information on the operations and procedures for grants and contracts that are paid through GAPS
- ✓ *The Blue Book*—information on accounting and record keeping responsibilities for federal student financial aid programs; it is written especially for school fiscal officers

Direct Loan Publications

Publications dealing specifically with the Direct Loan Program can be ordered by

phone: 1-800-848-0978;

fax: 1-800-557-7396;

email: loan_origination@mail.eds.com; or

mail: U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, AL 36103-5692

The following can be ordered in bulk unless noted otherwise. Most can be downloaded from ED's Web sites at **http://www.ed.gov/DirectLoan** or **http://ifap.ed.gov**

- ✓ *All About Direct Loans* (brochure)—gives students detailed information about the Direct Loan program, including loan repayment information, deferment provisions, and the consequences of default
- ✓ *Direct Consolidation Loan Guide* (booklet)—provides detailed information about Direct Consolidation Loans, which are available to both student and parent borrowers

- ✓ *Direct Loan School Guide* (book)—provides clear, comprehensive guidance to schools on how to implement and administer the Direct Loan Program (not available in bulk; the Loan Origination Center sends one to each Direct Loan school in the school's welcome package)
- ✓ *Direct Loan Quality Assurance Planning Guide* (book)—provides the how-to of setting up a school's quality assurance compononent of the Direct Loan Program; updated yearly
- ✓ *Direct Loans: A Better Way to Borrow* (brochure)—summarizes the Direct Loan Program; includes information on application procedures and loan limits
- ✓ *Direct PLUS Loan Basics* (pamphlet)—gives a basic overview of Direct PLUS Loans for parent borrowers
- ✓ *Direct PLUS Loans Guide* (booklet)—provides detailed information on Direct PLUS Loans for parent borrowers, including eligibility criteria, the application process, credit check procedures, and determining how much they can afford to borrow
- ✓ *Entrance Counseling Guide for Borrowers* (booklet)—provides information that schools are required to give student borrowers
- ✓ *Entrance Counseling Guide for Counselors* (booklet)—offers tips on what to cover during entrance counseling
  - ◆ An entrance counseling video (about 20 minutes long) also is available
- ✓ *Exit Counseling Guide for Borrowers* (booklet)—provides information that schools are required to give student borrowers
- ✓ *Exit Counseling Guide for Counselors* (booklet)—explains what schools must cover during exit counseling and gives a topic outline
  - ◆ An exit counseling video (about 20 minutes long) also is available
- ✓ *The Inside Scoop for Borrowers: The New 1999-2000 Master Promissory Note for Direct Loan Borrowers* (pamphlet)—provides borrowers with plain-language information on the 1999-2000 master promissory note (MPN)
- ✓ *Repayment Guide* (booklet)—explains the four Direct Loan Program repayment plans in detail and includes repayment tables, worksheets, and charts (the Loan Origination Center sends one to each Direct Loan school in the school's welcome package)

For all other publications, call **1-800-433-3243 (1-800-4-FED-AID)**.

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Direct Loans

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Appendix B: Glossary

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Glossary

Appendix B

- A -

Academic year (AY). A time period of at least 30 instructional weeks in which a full-time undergraduate student is expected to complete:

- at least 24 semester or trimester hours or 36 quarter hours at an institution using credit hours in an educational program whose length is measured in credit hours,

or

- at least 900 clock hours at an institution using clock hours.

There is an exception to the 30-week requirement for those schools with at least a 2-year or 4-year academic program with an associate or bachelor's degree. Those schools may request, in writing, that ED reduce the minimum period of instructional time of the academic year for any of its programs as long as they are at least 26 weeks in length.

Accredited institution. Any school or institution that meets standards established by a nationally recognized accrediting agency or association. See *Nationally recognized accrediting agency or association.*

Accrued interest. The interest that accumulates over time on the principal of a loan. See *Capitalized interest* and *Interest.*

ACH and ACH/EFT. See *Automated Clearinghouse (ACH).*

Actual disbursement roster (ADR). A list that the Loan Origination Center (LOC) sends to Standard Origination schools and Origination Option 1 schools four days before a loan disbursement. The list contains the names of borrowers, loan types, and amounts to be disbursed.

ADL. See *Anticipated disbursement listing.*

Administrative capability. A requirement an institution must meet to participate in any Title IV student aid program. Administrative capability covers specific areas in the management of an institution. These areas include:

- establishing and maintaining student records and financial records,
- submitting required ED reports,
- designating a capable Title IV aid administrator at an institution,
- writing procedures for school offices involved with Title IV programs,
- communicating to the financial aid administrator all information received by any school office that might affect a student's Title IV aid eligibility,
- dividing the functions of authorizing payments and disbursing funds, *and*
- employing an adequate number of qualified staff.

See also *Financial responsibility*

Administrative offset. An offset assessed by ED against a Title IV aid school to collect program review, audit, and formal fine debts. ED withholds a portion of a school's Grant Administration and Payment System (GAPS) payments and applies them toward the school's debt.

ADR. See *Actual disbursement roster (ADR).*

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Advance payment method. Under the advance payment method, a school may submit a request for funds to ED prior to disbursing aid to eligible students and parents. If the request is approved, ED will make an electronic funds transfer for the requested amount to the school's bank account.

Alternative repayment. A repayment plan the Direct Loan Servicing Center provides to a borrower who adequately demonstrates that the terms and conditions of the four Direct Loan repayment plans do not accommodate the borrower's exceptional circumstances.

Anticipated disbursement listing (ADL). A list that the Loan Origination Center (LOC) sends to Standard Origination schools and Origination Option 1 schools 30 to 45 days before a disbursement. The list contains anticipated disbursement amounts by borrower and loan type.

Audit. An independent examination of a school's financial transactions, accounts, reports, and compliance with applicable laws, regulations, and ED directives. A financial audit also studies and evaluates the institution's internal accounting and administrative controls, as well as the policies, procedures, and practices used in administering student financial assistance programs.

Automated Clearinghouse (ACH). A nationwide, electronic financial network providing a paperless, efficient means of making payments by electronically transmitting debits and credits through the Federal Reserve Communications System. ACH payments offer a wide range of applications, including direct deposit and preauthorized debits. Also referred to as Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT).

Automated FEDWIRE system. A process that allows schools receiving funds by FEDWIRE to place payment requests via personal computer directly into Grant Administration and Payment System (GAPS). This system allows payments to be made the same day, be made the next day, or warehouses a payment request for up to 30 days. See *FEDWIRE*.

Automated voice response. An option for placing requests for ACH payments through a service bureau. This request is made via a touch-tone telephone. It represents one of two payment-request modes available to schools. Compare *Operator-assisted mode*.

Award. As a noun, a specific amount of financial assistance to pay for education costs offered to a student through one or more financial aid programs. As a verb, the approval of financial assistance to students, as in one function of an institution is to award campus-based financial aid to students who meet all the eligibility criteria.

Award adjustment or revision. An action by a financial aid office resulting in an increase, decrease, program-source substitution, or cancellation of a student's financial aid award. This may be necessitated by factors such as a change in the student's enrollment status or a change in the financial circumstances of the student's family or the student.

Award packaging. See *Packaging*.

Award year. The time period from July 1 of one year through June 30 of the following year for which financial aid awards are made. The award year differs from the federal fiscal year. Compare *Federal fiscal year* and *Program year (PY)*.

AY. See *Academic year (AY)*.

- B -

Batch. A group of records assembled in a single file that is then transmitted electronically as one unit to ED.

Blueprint. See *Modernization blueprint.*

Booked loan. The process point that creates an official and permanent obligation for the borrower to repay a Direct Loan. A loan is booked when the Loan Origination Center (LOC) has accepted:

- the loan origination record,
- the signed promissory note, and
- the disbursement record.

Borrower. Person responsible for repaying a loan who has signed and agreed to the terms in the promissory note.

- C -

CAM. See *Client account manager.*

Campus-based programs. The term applied to three federal Title IV student aid programs administered on campus by eligible institutions of postsecondary education:

- Federal Perkins Loan Program,
- Federal Work-Study (FWS) Program, *and*
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program.

See individual program names.

Capitalizing interest. Adding unpaid accrued (accumulated) interest to loan principal payments. Capitalizing interest increases the principal amount of the loan and, therefore, the total cost of the loan. See *Accrued interest* and *Interest.*

Cash advance. A transfer of funds from a federal agency (from an account in the U.S. Treasury through the Federal Reserve Bank) to a school.

Cash monitoring payment method. Under the cash monitoring payment method, a school either is paid in advance or reimbursed. Schools either request funds in advance to meet their immediate cash needs or schools spend their own funds for Title IV programs. After submitting the appropriate documentation to ED, the schools are then reimbursed. See *Advance payment method* and *Reimbursement payment method.*

Central Processing System (CPS). ED's application data processing facility. The CPS uses student information from the Free Application for Federal Student Aid (FAFSA) to calculate the student's official Expected Family Contribution (EFC), creates and transmits to schools the Institutional Student Information Record (ISIR), and prints and mails to the student the Student Aid Report (SAR). A series of edits is used to check the consistency of family-supplied and student-supplied information. Eligibility matches are also conducted with the U.S. Social Security Administration, the U.S. Department of Justice, the U.S. Immigration and Naturalization Service, and the U.S. Selective Service. In addition, each student is checked against ED's own loan-defaulter database. See *National Student Loan Data System (NSLDS).*

CFR. See *Code of Federal Regulations (CFR).*

Citizen. See *U.S. citizen or national* and *Eligible noncitizen.*

Client account manager (CAM). ED employees who help schools implement and operate the Direct Loan Program. CAMs provide customer service, training, and technical assistance, as well as answering questions about federal student financial aid programs and policy.

Clock hour. The period of time consisting of—

- a 50-minute to 60-minute class, lecture, or recitation in a 60-minute period; or
- a 50-minute to 60-minute laboratory, shop training, or internship in a 60-minute period; or
- 60 minutes of preparation in a correspondence course of study.

Compare *Credit hour.*

COA. See *Cost of attendance (COA).*

***Code of Federal Regulations* (CFR)**. The compilation of federal regulations and rules. Regulations implementing Title IV programs appear in 34 CFR; the Direct Loan Program regulations are in 34 CFR 685.

Cohort default rate. For the Direct Loan Program, the FFEL Program, and the Federal Perkins Program, the percentage of an institution's current and former students who entered student-loan repayment in a specific fiscal year on loans received for attendance at that institution and who defaulted before the end of the following fiscal year. For any fiscal year in which fewer than 30 students from a school entered repayment, the percentage is determined on the basis of students who entered repayment as described above in any of the three most recent fiscal years and who defaulted before the end of fiscal year immediately following the year they entered repayment. See *Default.*

Collection costs. Costs the government incurs when collecting a delinquent or defaulted loan. These costs are charged to the borrower.

Combination school. See *Combo school.*

Combo school. A school that uses both mainframe computers and personal computers (PCs) to administer the Direct Loan Program. Also called "combination school."

Consortium. A group of two or more schools that interacts with the U.S. Secretary of Education (the Secretary) in the same manner as other schools, except that the electronic communication between the Secretary and the schools is channeled through a single point. Each school in a consortium signs a Direct Loan Program participation agreement with the Secretary and is responsible for the information it supplies through the consortium.

Corrective action. As a part of any fine, any limitation, suspension, or termination proceeding, or any adverse finding in a report or review, ED may require a postsecondary institution to take corrective action. This action may include making payments to eligible students or repaying any illegally used funds to ED. ED may offset any funds to be repaid against any benefits or claims due to the institution.

Cost of attendance (COA). Section 472 of the Higher Education Act sets forth specific statutory parameters for cost of attendance (COA) for Title IV aid programs. A student's cost of attendance includes tuition and fees, room and board expenses while attending school, allowances for books and supplies, computer, transportation, loan fees (if applicable), dependent-care costs, costs related to a disability, and other miscellaneous expenses. In addition, reasonable costs for a study-abroad program and costs associated with a student's employment as part of a cooperative education program may be included. There are also special rules for less-than-half-time students and correspondence-study students. The cost of attendance is estimated by the school. The cost of attendance is compared to a student's Expected Family Contribution (EFC) to determine the student's need for aid.

CPS. See *Central Processing System (CPS).*

Credit hour. The unit of measuring educational credit based on the number of classroom hours per week throughout a semester, trimester, or quarter term. Compare *Clock hour.*

- D -

Data Universal Numbering System (DUNS) number. A distinctive nine-digit identifier assigned by Dun and Bradstreet to be used as the identifying number to access the Department of Education's Central Automated Processing System (EDCAPS) and Grant Administration and Payment System (GAPS).

Default. Failure to repay a loan according to the terms of the promissory note. For Direct Loans: Failure to make a loan-installment payment on a loan repayable in monthly installments for 270 days. There can be serious legal consequences for student-loan defaulters. See *Cohort default rate.*

Default rate. A percentage calculated each year for a postsecondary school on the basis of the number of former students who defaulted on FFEL Program and/or Direct Loan Program loans received while attending that school. See *Cohort default rate.*

Deferment (of a loan). The temporary postponement of loan payments. While a borrower does not pay interest on *subsidized* loans during deferment, interest expenses continue to accumulate during deferment of an *unsubsidized* loan. Compare *Forbearance (on a Loan).*

Delinquency. Incidents of late or missed loan payments, as specified in the terms of the promissory note and the selected repayment plan.

Department of Education Central Automated Processing System (EDCAPS). A centralized financial management system designed to integrate ED's separate financial processes.

Dependent student. Generally, a spouse, child, or other household member for whom the parent (or aid applicant) provides more than one-half of the financial support. For the purposes of federal student financial aid, a student who does not meet any of the criteria for an independent student must be classified as a dependent student. Compare *Independent student.*

Destination point. An electronic mailbox that physically transmits and receives financial aid data via the Title IV WAN. Every destination point is administered by a destination point administrator (DPA) and has an electronic mailbox number that begins with the letters "TG." See *Destination point administrator.*

Destination point administrator (DPA). An individual representing an organization involved in administering Title IV student financial aid programs, (such as a postsecondary institution, a state scholarship agency, a third-party servicer, or a software provider) who is enrolled on the Title IV WAN and assigned a destination point. To enroll as a DPA on the Title IV WAN, an organization's representative must complete and submit the Enrollment to Participate in the U.S. Department of Education's Title IV Wide Area Network. See *Destination point.*

Direct Consolidation Loan. One or more federal education loans combined into a single loan under the Direct Loan Program. Only one monthly payment is made to the U.S. Department of Education. See *Federal Direct Loan Program.*

Direct Loan. See *Federal Direct Loan Program.*

Direct Loan amendment. An addendum to a school's Program Participation Agreement with ED that, when signed by a school's president/CEO and a representative of the U.S. Secretary of Education, permits a school to participate in the Federal Direct Loan Program. Among the items the school agrees to in the signed amendment are that it will refrain from charging fees for loan origination activities and Direct Loan information and that it will implement a quality assurance plan. See *Federal Direct Loan Program (William D. Ford Federal Direct Loan Program), Program Participation Agreement (PPA)*, and *Quality assurance (QA).*

Direct Loan School Account Statement (DLSAS). Similar to a bank statement for a checking account, the Direct Loan School Account Statement allows schools to balance their records with the Loan Origination Center's (LOC's). The LOC sends schools their DLSASs on a monthly basis.

Direct Loan Servicing Center (DLSC). Under contract with ED, the Direct Loan Servicing Center (DLSC) services Direct Loan Program loans. The DLSC's functions include all activities related to maintaining borrower accounts and responding to borrower inquiries.

Disburse. To pay out money. See *Disbursement.*

Disbursement. The process by which Title IV program funds are paid to a student or parent borrower. A school may:

- pay a student or parent directly,
  - by check or other means payable to the student and requiring the student's endorsement or certification (or, in the case of a parent borrowing under the Direct Loan Program, requiring the endorsement or certification of the student's parent);
  - by initiating an electronic funds transfer (EFT) to a bank account designated by the student (or, in the case of a parent borrower, an account designated by the parent); or
  - by dispensing cash to the student for which the school obtains a signed receipt from the student: *or*
- credit a student's account.

Discharge. The release of borrowers from their obligations to repay their Direct Loans. Borrowers must meet certain requirements to be eligible for discharges.

Disclosure statement. Statement of the actual cost of a loan, including the interest costs and the loan fee.

DLSAS. See *Direct Loan School Account Statement (DLSAS).*

DLSC. See *Direct Loan Servicing Center (DLSC).*

DPA. See *Destination point administrator (DPA).*

Drawdown of funds. The process schools use to request Title IV funds. In the Direct Loan Program, Origination Option 2 schools make drawdown requests directly to the Grant Administration and Payment System (GAPS). For Origination Option 1 schools and Standard Origination schools, the Loan Origination Center (LOC) makes the drawdown requests. See *Grant Administration and Payment System (GAPS).*

DUNS number. See *Data Universal Numbering System (DUNS) Number.*

- E -

ED. An abbreviation for U.S. Department of Education.

EDCAPS. See *Department of Education Central Automated Processing System (EDCAPS).*

EDE. See *Electronic Data Exchange (EDE).*

EDExpress. A free software product provided by ED that allows institutions to enter, edit, manage, and report Title IV student financial aid application data and Federal Pell Grant payment data. This software also has functions that institutions can use to package financial aid awards, originate Direct Loans, and print Direct Loan master promissory notes.

Educational program. A postsecondary course of study that generally leads to an academic or professional degree, vocational certificate, or other recognized educational credential. According to the U.S. Secretary of Education, a postsecondary school is not providing an educational program if it does not provide the program's instruction (including independent study) but merely gives credit for one or more of the following:

- instruction provided by other schools,
- examinations provided by agencies or organizations, or
- other accomplishments, such as "life experience."

EFA. See *Estimated financial assistance (EFA).*

EFC. See *Expected Family Contribution (EFC).*

EFT. See *Automated Clearinghouse (ACH).*

Electronic Data Exchange (EDE). ED's process for institutions (and other participating destination points) to electronically transmit, receive, and correct application data, package student awards, and transmit Direct Loan and Federal Pell Grant payment information through Title IV WAN.

Electronic funds transfer (EFT). See *Automated clearinghouse (ACH).*

Eligible institution. A public or private nonprofit institution of higher education, a postsecondary vocational school, or a proprietary institution of higher education that meets all the criteria to participate in Title IV student financial aid programs.

Eligible noncitizen. A student aid applicant who is not a U.S. citizen, U.S. national, or U.S. permanent resident, but is eligible to receive Title IV assistance.

An eligible noncitizen must have an Arrival-Departure Record (I-94) from the U.S. Immigration and Naturalization Service (INS) showing one of the following designations:

- "Refugee,"
- "Asylum Granted,"
- "Indefinite Parole and/or Humanitarian Parole,"
- "Cuban-Haitian Entrant, Status Pending," or
- "Conditional Entrant" (valid only if issued before April 1, 1980).

Conditions that allow noncitizens to be eligible for financial aid are listed in the *Student Aid Handbook*. See *U.S. citizen or national.*

Eligible program. A course of study that requires a certain minimum number of hours of instruction and period of time and that leads to a degree or certificate at a school participating in one or more of the Title IV programs. Generally, to get student aid, a student must be enrolled in an eligible program.

Eligible student. The definition of a student eligible to receive federal financial aid from ED is discussed in detail in the *Student Financial Aid Handbook: Student Eligibility*, and Subpart C of the Student Assistance General Provisions regulations (34 CFR 668).

Emergency action. Action taken by ED against an eligible postsecondary institution. This action includes withholding funds from the institution or its students and withdrawing the authority of the institution to obligate federal funds under any or all of the Title IV student aid programs. Emergency action is taken when ED:

- receives information that the institution is violating applicable laws, regulations, special arrangements, agreements, or limitations;
- determines that the likelihood of loss to the federal government outweighs putting in place limitation, suspension, or termination procedures; *and*
- determines that immediate action is necessary to prevent misuse of federal funds.

See *Limitation, suspension, or termination (LS&T)* and *Program Participation Agreement (PPA)*.

Endorser. An individual who signs a promissory note agreeing to repay a loan if the borrower does not repay it. See *Promissory note*.

Enrolled student. A student who has completed the school's registration requirements, except for paying tuition and fees.

Enrollment period. For the Direct Loan Program, the period of time for which a borrower's loan is intended and during which a student is enrolled. For a school that uses academic terms (semester, trimester, or quarter), an enrollment period must coincide with one or more terms or with an academic year. For a school that does not use academic terms, an enrollment period must coincide with the length of a student's program of study or an academic year. Compare *Payment period*.

Enrollment status. At those institutions using semesters, trimesters, quarters, or other academic terms and measuring progress in credit hours, enrollment status is based on a student's credit-hour course load. At these schools, a full-time undergraduate student enrolls in at least 12 semester hours or 12 quarter hours each term.

- At those institutions measuring progress in clock hours, enrollment status equals a student's clock-hour course load. At these schools, a full-time student receives 24 hours of instruction in one week.
- At either type of school, student enrollment may be categorized as full-time, three-quarter-time, half-time, or less-than-half-time.
- At those institutions using a combination of both credit and clock hours, enrollment status for a full-time student is any combination of credit and clock hours where the sum of the following fractions is equal to or greater than one.
  - For a program using a semester, trimester, or quarter system:

$$\frac{\text{Number of credit hours per term}}{12}$$

plus

$$\frac{\text{Number of clock hours per week}}{24}$$

  - For a program not using a semester, trimester, or quarter system:

$$\frac{\text{Number of semester or trimester hours per academic year}}{24}$$

plus

$$\frac{\text{Number of quarter hours per academic year}}{36}$$

plus

$$\frac{\text{Number of clock hours per week}}{24}$$

- At non-term institutions, enrollment status for a full-time student is 24 semester hours or 36 quarter hours per academic year or the prorated equivalent for a program of less than one academic year.

Entrance counseling (for a student borrower). Each institution participating in the Direct Loan Program must offer loan counseling to first-time student borrowers, excluding (parent) Direct PLUS Loan borrowers. This is known as "entrance" counseling. The institution must offer this counseling before the delivery of the first disbursement of any of these loans to a borrower at the institution. Entrance counseling covers the borrower's rights and responsibilities, the terms and conditions of the loan, and the consequences of default.

Direct Loan schools have the option of using an alternative approach. (See CFR 685.304(a)(5).) Compare *Exit counseling (for a student borrower).*

Estimated financial assistance (EFA). The estimated amount of assistance for a period of enrollment that a student (or parent on behalf of a student) will receive from federal, state, institutional, and/or other sources of financial aid, such as loans, employment, scholarships, and grants.

Excess cash. Any amount of Title IV program funds (other than FFEL Program or Federal Perkins Loan Program funds) that a school does not disburse to students by the end of the third business day following the date the school received the funds. Compare *Idle cash.*

Exit counseling (for a student borrower). A group or individual session during which Direct Loan borrowers who are leaving school or dropping below half-time enrollment receive important information about their repayment obligations and update information about themselves. Each institution participating in the Direct Loan Program must offer loan counseling to student borrowers, excluding (parent) Direct PLUS Loan borrowers. This is known as "exit" counseling. For Direct Loan student borrowers, the interview must take place shortly before the borrower ceases at least half-time enrollment. During the interview, the borrower's rights and responsibilities are reviewed, details about handling loan repayment are discussed, and the average indebtedness of the school's borrowers must be disclosed. Borrowers are also required to provide updated personal information, such as address, telephone number, employer (if known), and driver's license and state of issuance. See the *Student Financial Aid Handbook: Campus-Based Programs Reference* and *Direct Loan and FFEL Programs Reference* for complete information on loan counseling requirements. Compare *Entrance counseling (for a student borrower).*

Expected Family Contribution (EFC). The figure that indicates how much of a family's financial resources should be available to help pay a student's postsecondary education expenses. This figure, determined according to a statutorily defined method known as need analysis, is used for all students in determining eligibility for most federal Title IV student financial aid.

Extended repayment plan. A plan that requires the borrower to pay at least $50 a month and allows up to 30 years to repay, depending on the amount borrowed.

- F -

FAFSA. See *Free Application for Federal Student Aid (FAFSA).*

FAT. See *Financial aid transcript (FAT).*

Federal Direct Consolidation Loan. A loan, arranged through ED's Loan Origination Center (LOC), that combines Title IV education loans (including non-Direct loans) into a single loan with one monthly repayment. Borrowers may also consolidate certain student loans provided by the U.S. Department of Health and Human Services.

Federal Direct Loan Program (William D. Ford Federal Direct Loan Program). A federal program where the U.S. government (not a commercial lender) provides four types of education loans to student and parent borrowers:

- the Federal Direct Subsidized Stafford/Ford Loan,
- the Federal Direct Unsubsidized Stafford/ Ford Loan,
- the Federal Direct PLUS Loan, and
- the Federal Direct Consolidation Loan.

These are also referred to collectively as Direct Loans. See individual loan names.

Federal Direct PLUS Loan. Parents may borrow from this education loan program on behalf of their dependent children. As part of the Direct Loan Program, Direct PLUS Loans are made directly by the federal government through students' schools.

Federal Direct Stafford/Ford Loan (subsidized). Also referred to as "Direct Subsidized Loan." A federally financed and subsidized student loan made on the basis of the student's financial need and other specific eligibility requirements. The federal government does not charge interest on these loans while borrowers are enrolled at least half time, during the six-month grace period, or during authorized periods of deferment. See *Grace period* and *Deferment.*

Federal Direct Unsubsidized Stafford/Ford Loan. Also referred to as "Direct Unsubsidized Loan." A federally financed student loan made to students meeting eligibility requirements. Students need not demonstrate financial need. Interest is charged throughout the life of the loan. The borrower may choose to pay the interest charged on the loan or allow the interest to be capitalized (added to the loan principal) when the loan enters repayment. See *Capitalizing interest.*

Federal Family Education Loan (FFEL) Program. The Federal Family Education Loan (FFEL) Program is made up of Federal Stafford Loans (both subsidized and unsubsidized), Federal PLUS (parent) Loans, and Federal Consolidation Loans. All of these are long-term loans insured by state or private nonprofit guaranty agencies that are reimbursed by the federal government for all or part of the insurance claims paid to lenders. This guarantee replaces the collateral or security usually required with long-term consumer loans.

Federal fiscal year. The time period from October 1 of one year through September 30 of the following year for which federal monies are made available. Compare *Award year and Program year (PY).*

Federal Pell Grant Program. A grant program for undergraduate students who have not completed a first baccalaureate degree. It is designed to financially assist students with need who are the least able to contribute toward their basic education expenses. If students apply, meet all the eligibility criteria, and are enrolled in an eligible program at an eligible institution, they will receive Federal Pell Grants. Formerly, this grant was called the Basic Educational Opportunity Grant (BEOG). In 1982, it was renamed to honor Senator Claiborne Pell; the word "Federal" was added to its name in 1992.

Federal Perkins Loan Program. This campus-based loan program provides low-interest student loans to undergraduate and graduate students with financial need. Formerly, it was called the National Direct Student Loan (NDSL) Program and the National Defense Student Loan Program. In 1987, it was renamed to honor Congressman Carl D. Perkins; the word "Federal" was added to its name in 1992. See *Campus-based programs.*

Federal Register. The government publication, published each weekday (except federal holidays), that prints regulations, regulatory amendments, notices, and proposed regulatory changes for all federal executive agencies. ED sends reprints of excerpts from the *Federal Register* that pertain to federal student financial aid to all institutions participating in Title IV programs.

Federal Reserve Bank (FRB). A bank that is part of the U.S. Federal Reserve System. ED uses this system to deliver Direct Loan funds to schools.

Federal Student Financial Aid Handbook. See *Student Financial Aid Handbook.*

Federal Supplemental Educational Opportunity Grant (FSEOG) Program. A campus-based aid program that provides grant assistance to students with financial need who are in undergraduate programs and have not earned a bachelor's degree or first professional degree. Priority in awarding Federal Supplemental Educational Opportunity Grant (FSEOG) funds is given to students who have exceptional financial need and are Federal Pell Grant recipients. See *Campus-based programs.*

Federal Work-Study (FWS) Program. A campus-based, federally funded employment program that provides paid jobs for undergraduate or graduate students who need such earnings to meet a portion of their education expenses. See *Campus-based programs.*

FEDWIRE. This system provides for the electronic transfer of funds (EFT) through the Federal Reserve Communications System (FRCS). The system differs from the automated clearinghouse (ACH) in that funds are deposited directly into a school's deposit account the day the payment is sent through the FRCS. Financial institutions charge for this type of funds transfer. (There is no charge to a school for ACH transfer.)

The U.S. Treasury Department's Financial Communications System (TFCS) Deposit Message Retrieval System (DMRS) uses FEDWIRE for returning funds to ED, including:

- a liability or combination of liabilities totaling $100,000 or more for a prior award year (except for some Federal Perkins Loan liabilities);
- excess cash in, or liquidation of, a Federal Perkins Loan fund; *and*
- ED-proposed or assessed fines of $100,000 or more.

See *Automated FEDWIRE System.* Compare *Automated Clearinghouse (ACH).*

FFEL Program. See *Federal Family Education Loan (FFEL) Program.*

Final regulations. Federal government operating rules published in the *Federal Register.* Final regulations, which have the force of law, usually take effect 45 days after the date they are published. There are exceptions to the 45-day period because of the master calendar of the Higher Education Act (HEA). The master calendar gives specific dates by which federal forms are to be developed and distributed. See *Federal Register* and *Notice of Proposed Rulemaking (NPRM).*

Financial aid transcript (FAT). A document used by institutions to collect data about Title IV aid and other financial aid received by a student at other educational institutions. Institutions must provide completed financial aid transcripts (FATs) at no charge to students and former students.

Financial need. The difference between the student's cost of attendance (COA) at a specific institution and what the student's family is able to pay—the Expected Family Contribution (EFC). [COA – EFC = student's financial need.] See *Cost of attendance (COA), Expected Family Contribution (EFC),* and *Need analysis.*

Financial responsibility. An institution must show that is has the financial responsibility to participate in federal Title IV student aid programs. Financial responsibility covers general standards as well as exceptions institutions can meet as alternatives. The standards include those for for-profit, nonprofit, and public institutions and cover the past performance of an institution or persons affiliated with an institution. For further information, refer to Subpart L of the Student Assistance General Provisions regulations (34 CFR 668). See also *Administrative capability.*

FISAP (Fiscal Operations Report and Application to Participate). A computer-based report on fiscal operations and an application to participate in the upcoming award year that must be submitted by schools that participate in campus-based programs. A school may submit the data using either a personal computer (PC) or a mainframe computer.

Forbearance (on a loan). An arrangement to postpone or reduce a borrower's monthly payment amount for a limited and specified period, or to extend the repayment period. The borrower is charged interest during forbearance. Compare *Deferment (of a loan).*

William D. Ford Federal Direct Loan Program. See *Federal Direct Loan Program.*

Form PMS 270. See *Reimbursement payment method.*

FRB. See *Federal Reserve Bank (FRB).*

Free Application for Federal Student Aid (FAFSA). A student financial aid application form completed by a student and his or her family. It is the ED input document that serves as the foundation for all need analysis computations. The FAFSA gathers all the data to calculate the Expected Family Contribution (EFC). See *Expected Family Contribution (EFC), Need analysis,* and *Renewal FAFSA.*

FSEOG Program. See *Federal Supplemental Educational Opportunity Grant (FSEOG) Program.*

Full-time student. A term defined by each institution of higher education. For Title IV eligibility, a full-time undergraduate student cannot be taking less than 12 semester, trimester, or quarter hours per academic term in credit-hour schools or less than 24 clock hours per week in clock-hour schools. See *Clock hour* and *Credit hour.*

FWS. See *Federal Work-Study (FWS) Program.*

- G -

GAPS. See *Grant Administration and Payment System (GAPS).*

Gift aid. Financial aid that a student is not required to repay or earn through employment. Generally, gift aid is in the form of a grant or scholarship. Compare *Self-help aid.*

Grace period. A six-month period before a loan enters repayment. The grace period starts the day after a borrower ceases to be enrolled at least half time and ends the day before the loan repayment period starts. During the grace period on a Direct Unsubsidized Loan, accumulating interest must be paid or it will be capitalized. See *Capitalizing Interest.*

Graduate or professional student. A student enrolled in a program that leads to a degree higher than a baccalaureate degree or first professional degree. A graduate or professional student must have completed at least three years of full-time study at an institution of higher education and may not be concurrently receiving Title IV aid as an undergraduate student.

Graduated repayment plan. A plan that allows monthly payment amounts to start low and then increase, generally every two years. Borrowers have up to 30 years to repay, depending on the amount they borrowed. The ***minimum*** payment must cover interest that accumulates monthly and must be at least half of the payment that would be required under the standard repayment plan. The ***maximum*** amount may not be more than 1-½ times the payment that would be required under the standard repayment plan.

Grant Administration and Payment System (GAPS). The ED payment system that provides financial management support services for the Title IV funds delivery system. Functions supported by GAPS include planning grant awards, obligation of award authorizations, disbursing funds, and final grant closeout for Title IV programs.

Grant programs. Gift aid programs that require neither repayment nor a work obligation from students. Federal Title IV grant programs for students include:

- Federal Pell Grant Program,
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program, and
- Leveraging Educational Assistance Partnership (LEAP) Program.

See individual grant program names.

Guaranty agency. A state agency or private, nonprofit institution or organization that administers the financial aid programs within the Federal Family Education Loan (FFEL) Program. A major function is to insure Federal Family Education Loans. Guaranty agencies are reimbursed by the federal government for all or part of insurance claims they pay to lenders. The Direct Loan Program is administered by schools and ED, not by guaranty agencies.

- H -

Half-time student. A student who is not a full-time student and who is enrolled in a school participating in the Direct Loan Program and is carrying an academic workload that is at least one-half of the workload of a full-time student, usually equaling or exceeding the following minimum requirements:

- 6 semester, trimester, or quarter hours per academic term for schools using credit hours and a standard academic term;
- 12 clock hours per week for schools using clock hours;
- 12 semester hours or 18 quarter hours per academic year for schools using credit hours but not a standard academic term; or
- 12 hours of preparation per week in a correspondence course of study.

Compare *Full-time student.*

HEA. See *Higher Education Act of 1965, as amended (HEA).*

HEAL Program. See *Health Education Assistance Loan (HEAL) Program.*

Health Education Assistance Loan (HEAL) Program. A loan program for health profession students that was administered by the U.S. Department of Health and Human Services. HEAL funds are no longer available. Students who would have been eligible may borrow additional Direct Unsubsidized Loans.

Higher Education Act of 1965, as amended (HEA). Landmark national higher education legislation passed by Congress and signed by President Lyndon B. Johnson in 1965, as well as subsequent amendments and reauthorizing (extending) legislation of the statute. Title IV of the

HEA authorizes the majority of the nation's federal postsecondary student financial aid programs and mandates that they be regulated by the U.S. Secretary of Education. The HEA is effective for approximately five years, requiring Congress to reauthorize it every five years or so or to extend the legislation for up to one additional year. The most recent reauthorization was in 1998. The statute's most current version, as amended, always stands as the official version of the law. See *Reauthorization* and *Title IV student financial aid.*

Holder. A person or institution that has the legal right to enforce a promissory note. For Direct Loans, the holder or owner of the signed promissory note is the U.S. Department of Education. See *Lender.*

- I -

ICR. See *Income contingent repayment (ICR) plan.*

Idle cash. Disbursed cash if and when it is returned to the school's Title IV account(s). This return may be due to a refund or other circumstances. For example, a student might receive a disbursement but later decide to return all or a portion of the loan and send the funds to the school. A school is allowed to maintain idle cash in its federal bank account for up to seven calendar days to disburse to, or on behalf of, the student or other students. Compare *Excess cash.*

Immediate need. A school requests funds to meet its "immediate need" for disbursing Federal Direct Loan Program, Pell Grant Program, and campus-based program awards. Immediate need is defined as the amount of funds a school needs to make disbursements to students within three days of receiving the funds. A school may request funds as needed, for example, every three days, once a week, or whatever is appropriate. (NOTE: Immediate need does not authorize an institution to maintain a federally funded cash-on-hand balance.)

See *Automated Clearinghouse (ACH)* and *Automated FEDWIRE System.*

Incarcerated student. A student who is serving a criminal sentence in a federal, state, or local correctional facility. A student in a less formal arrangement, such as a halfway house, home detention, or sentenced to serve only weekends, is not considered to be incarcerated. Students incarcerated in federal or state correctional facilities are not eligible to receive Title IV aid; however, students incarcerated in local correctional facilities are eligible for Federal Pell Grants, FSEOG, and LEAP Program funds.

Income contingent repayment (ICR) plan. A plan that allows the monthly loan payment amount to vary with a borrower's income. The payment amount varies based on three criteria: the borrower's income, family size, and educational debt. A borrower has up to 25 years to repay.

Independent student. To be classified as an independent student for Title IV aid, a student must meet **one** or more of the following criteria:

- be at least 24 years old by December 31 of the award year for which aid is sought;
- be an orphan or ward of the court through the age of 18;
- be a veteran of the U.S. Armed Forces;
- have legal dependents other than a spouse (for example, dependent children or an elderly dependent parent);
- be a graduate or professional student; or
- be married.

If the student meets any one of these criteria, he or she is classified as an independent student, even if the student is still living with his or her parents. If there are compelling reasons to do so, a dependent student may be classified as an independent student by a school's financial aid administrator. Compare *Dependent student.*

Institutional liability. Financial penalties or repayments that an institution must pay to ED as a result of incorrect institutional action or actions. A liability is the difference between the actual expenditures reported by the institution in GAPS for an Obligation Document Number for the award year and the final allowable expenditures as determined by the auditor, program reviewer, or hearing official.

Institutional Participation and Oversight Service (IPOS). A division in ED responsible for audit resolution, program review, financial statement analysis, initial certification, and recertification.

Institutional Quality Assurance Program (IQAP). See *Quality Assurance Program (QAP).*

Institutional Student Information Record (ISIR). An electronic output document generated by ED's Central Processing System (CPS) that summarizes information submitted on a student's Free Application for Federal Student Aid (FAFSA) and provides financial-need calculations (including the student's Expected Family Contribution [EFC]) on the basis of the submitted figures. It is available to schools through the Electronic Data Exchange (EDE). The ISIR includes full applicant data, information on reject reasons, comments, and assumptions. See *Student Aid Report (SAR).*

Institution of higher education. A public or private nonprofit educational institution located in a state, that—

- admits as regular students only persons with a high school diploma (or its recognized equivalent) or persons beyond the age of compulsory school attendance in the state where the institution is located;
- is legally authorized to provide a postsecondary educational program in the state where the institution is located;
- provides a program leading to an associate, baccalaureate, graduate, or professional degree, or
  - at least a two-year program that is acceptable for full credit toward a baccalaureate degree, or
  - at least a one-year training program that leads to a degree or certificate and prepares students for gainful employment in a recognized occupation;
- is a public or a private nonprofit institution to which contributions are tax deductible under section 501(c)(3) of the Internal Revenue Code; and
- is accredited or preaccredited by a nationally recognized accrediting agency or association or is a public postsecondary vocational school approved by a state agency approved by ED.

Interest. In the Direct Loan Program, a loan expense charged by the U.S. Department of Education and paid by the borrower for the use of borrowed money. The expense is calculated as a percentage of the principal amount (loan amount) borrowed.

IPOS. See *Institutional Participation and Oversight Service (IPOS).*

IQAP. See *Quality Assurance Program (QAP).*

ISIR. See *Institutional Student Information Record (ISIR).*

- J -

Just-in-time payment method. Under this payment method, a school electronically submits a request for funds on or near the actual date of disbursement. The request includes the date and amount of the disbursement it will make or has made to each student or parent.

- K -

No entries.

- L -

LEAP Program. See *Leveraging Educational Assistance Partnership (LEAP) Program.*

Legal guardian. A person with the legal authority to have the care of another. For the purpose of completing a Free Application for Federal Student Aid (FAFSA), a legal guardian is not considered to be a student's parent. See *Parent.*

Lender. A person or institution that lends money (makes a loan) and collects payments on the borrowed money. For Direct Loans, the lender is the U.S. Department of Education. For FFEL funds, the lender is generally a financial institution, such as a bank or credit union. See *Holder.*

Leveraging Educational Assistance Partnership (LEAP) Program. A Title IV gift-aid program jointly funded by the federal government and participating states. It provides state scholarship or grant assistance to students who show financial need. (Formerly, the State Student Incentive Grant [SSIG] Program.)

Limitation, suspension, or termination (LS&T). Actions undertaken by ED against a postsecondary institution that has either:

- violated the laws or regulations governing Title IV student financial aid programs or the Program Participation Agreement or any other agreement made under the law or regulations; *or*
- substantially misrepresented the nature of its educational program, its financial charges, or the employability of its graduates.

These ED actions against the institution may include proceedings on limitation, suspension, or termination (LS&T) of the school's participation in federal student financial aid programs; assessing fines up to $25,000 for each statutory or regulatory violation; and/or implementing emergency action.

- A *limitation* means the postsecondary institution agrees to abide by certain specific restrictions or conditions in its administration of student financial aid programs so that it can continue to participate in any of those programs. A limitation lasts for at least 12 months and, if a postsecondary institution fails to abide by the limitation's conditions, termination proceedings may be initiated.
- A *suspension* removes an institution from participating in Title IV student financial aid programs for a period not to exceed 60 days, unless a limitation proceeding has begun. Suspension actions are used when a postsecondary institution can be expected to correct a program violation in a short time.
- A *termination* ends a postsecondary institution's participation in Title IV programs.
- A *terminated institution* can be reinstated at a later date by ED to participate in Title IV programs.

At least three (3) months must elapse from the school's suspension and at least eighteen (18) months must elapse from the school's limitation or termination before an institution can request reinstatement. The request must be in writing. See *Emergency action* and *Program Participation Agreement (PPA).*

Loan. An advance of funds guaranteed by a signed promissory note in which the recipient of the funds promises to repay a specified amount under prescribed conditions. A loan is borrowed money that must be repaid.

Loan disclosure statement. A statement sent to a loan borrower by the lender before or at the time it disburses a loan, as well as before the start of the repayment period. The purpose of the disclosure is to provide the borrower with thorough and accurate information about the loan terms and the consequences of default. It includes information such as the:

- amount of the loan,
- interest rate,
- fee charges,
- length of the grace period (if any),
- the maximum length of the repayment, *and*
- the minimum annual repayment, deferment conditions, and the definition of default.

Loan fee. An expense of borrowing deducted proportionately from each loan disbursement.

Loan Origination Center (LOC). Under contract with ED, the Loan Origination Center (LOC),

- reviews and accepts or rejects loan origination records, promissory notes, actual disbursement records, and all other related records;
- prints and distributes promissory notes for Standard Origination schools and for Origination Option 1 and Option 2 schools (if requested by the school);
- conducts credit checks for Direct PLUS Loan borrowers;
- books a borrower's loan, thus making it an official and permanent obligation of the borrower;
- determines the school's financial needs and requests funding for Standard Origination schools and Origination Option 1 schools;
- performs accounting and reconciliation for the Direct Loan Program;
- provides consolidation information to borrowers; and
- provides customer service to school representatives.

Loan origination record (LOR). Document containing a borrower's demographic, financial, and statistical information necessary to make a permanent borrower record in ED's loan database.

Loan postponement. See *Deferment* and *Forbearance.*

Loan principal. The total amount of money borrowed plus any subsequently capitalized interest that has been added.

LOC. See *Loan Origination Center (LOC).*

LOR. See *Loan origination record (LOR).*

LS&T. See *Limitation, suspension, or termination (LS&T).*

- M -

Master calendar. To assure adequate notification about and timely delivery of Title IV financial aid, ED operates using a master calendar defined in the Higher Education Act (HEA). This calendar gives specific dates by which federal forms will be developed and distributed, as well as dates campus-based funds will be allocated and Federal Pell Grant funds will be authorized for an award year. The master calendar determines by what dates federal financial aid regulations must be published.

Master promissory note (MPN). The written document that a borrower signs that obligates him or her to repay the loan according to its terms. ED introduced the master promissory note in 1999-2000 so students will not have to sign more than one note in an academic year. For 2000-01, the master promissory note will allow students at certain schools to accept multiple loans over multiple years without signing a new note. See *Promissory note.*

Modernization blueprint. A plan documenting ED's design for computer systems architecture and how ED will move from stovepipe systems to an integrated system.

MPN. See *Master promissory note (MPN).*

- N -

National Student Loan Data System (NSLDS). An ED database that collects and maintains data on student-loan-level information and selected grant data on recipients from:

- the William D. Ford Federal Direct Loan Program,
- the Federal Family Education Loan (FFEL) Program,
- the Federal Perkins Loan Program (including National Direct, National Defense, and Income Contingent Loans),
- the Federal Pell Grant Program, and
- the Federal Supplemental Educational Opportunity Grant (FSEOG) Program.

Nationally recognized accrediting agency or association. An independent organization that monitors schools' practices and that certifies or approves schools to operate and/or offer certain programs of study. For schools participating in Title IV programs, these organizations must be approved by the U.S. Secretary of Education. See *Accredited institution.*

Need. See *Financial need.*

Need analysis. The statutorily defined method of analyzing household and financial information on a student's federal financial aid application and calculating an Expected Family Contribution (EFC) to determine the student's need for student financial need for postsecondary education costs. See *Cost of attendance (COA), Expected Family Contribution (EFC),* and *Estimated financial aid (EFA).*

Notice of proposed rulemaking (NPRM). Notice printed in the *Federal Register* of proposed regulations from a government agency, such as ED. Interested parties are invited to submit comments and recommendations about proposed regulations. All proposed regulations are subject to this process, including issues to be negotiated.

- The exception is if ED determines that it is impractical, unnecessary, or contrary to the public interest to publish proposed regulations and publishes the basis for its determination.

See *Federal Register* and *Final Regulations.*

NPRM. See *Notice of Proposed Rulemaking (NPRM).*

NSLDS. See *National Student Loan Data System (NSLDS).*

- O -

Operator-assisted mode. One of the two modes schools and other GAPS recipients use to request funds from GAPS under the automated clearinghouse (ACH). As the name implies, recipients speak directly to an operator to request funds. Compare *Automated voice response (AVR).*

Origination Option 1. Under this loan origination option, a school may perform the following functions,

- creates a loan origination record,
- transmits the record to the servicer,
- prepares the promissory note,
- obtains a completed and signed promissory note from a borrower,
- transmits the promissory note to the servicer,
- receives Direct Loan funds electronically,
- disburses a loan to a borrower,
- creates a disbursement record,
- transmits the disbursement record to the servicer, and
- reconciles on a monthly basis.

The Loan Origination Center (LOC) initiates the drawdown of funds for schools participating in Option 1. See *Loan Origination Center (LOC)*. Compare *Origination Option 2* and *Standard Origination*.

Origination Option 2. Under this loan origination option, a school performs the following functions,

- creates a loan origination record,
- transmits the record to the servicer,
- prepares the promissory note,
- obtains a completed and signed promissory note from a borrower,
- transmits the promissory note to the servicer,
- determines funding needs,
- initiates the drawdown of funds,
- receives Direct Loan funds electronically,
- disburses a loan to a borrower,
- creates a disbursement record,
- transmits the disbursement record to the servicer, and
- reconciles on a monthly basis.

The school can choose to have the Loan Origination Center (LOC) perform some of these functions. See *Loan Origination Center (LOC)*. Compare *Origination Option 1* and *Standard Origination*.

Overaward. Generally, any Direct Loan, campus-based, or FFEL funds disbursed in excess of the student's financial need. (Overawards do not apply to the Federal Pell Grant Program.)

Overpayment. Any financial aid amount paid to a student in excess of the amount the student is eligible to receive. An overpayment may be the result of an overaward, an error in the cost of attendance (COA) or Expected Family Contribution (EFC), or a student not meeting other eligibility criteria, such as citizenship or enrollment in an eligible program. An overpayment also can occur if there's a change in the student's enrollment status, the student withdraws from school, or there's a change in the student's financial situation. Except for Federal Work-Study funds, the student would be required to repay excess funds received *unless* adjustments could be made to the student's aid during subsequent payment periods within the same award year. See *Repayment*.

- P -

Packaging. The process of assembling one or more financial aid awards of loans, grants and/or scholarships, as well as employment for a student; also referred to as award packaging.

Parent. For the purpose of completing the FAFSA, the term "parent" is not restricted to a biological or adoptive parents. There are several instances in which a person other than the student's biological parent is treated as the student's parent. If a parent is widowed or divorced and has remarried, then the stepparent would be considered a parent.

- If the student's parents are both living and married to each other, the student answers the questions about them.
- If the student's parent is widowed or single, the student answers the question about that parent.
    - If the widowed parent has remarried as of the day the FAFSA is completed, the student answers the questions about that parent and the person whom that parent married.
- If the student's parents are divorced or separated, the student answers the question about the parent he or she lived with most during the past 12 months.
    - If the student did not live with one parent more than the other, he or she answers in terms of the parent who provided the most financial support during the past 12 months or during the most recent year that the student actually was supported by a parent.
    - If this parent has remarried as of the day the FAFSA is completed, the student answers the questions on the rest of the form about that parent and the person whom that parent married.
- If the student's parents are living together and are not married, and if the state does not consider the situation to be a common-law marriage, then the parent information should be filled out as if they are separated.
- If the student's parents are living together and are not married but meet the criteria in their state for a common-law marriage, the parents should be reported as married.

See *Legal guardian.*

Pell Grant. See *Federal Pell Grant Program.*

Period of enrollment. See *Enrollment Period.*

Perkins Loan. See *Federal Perkins Loan Program.*

PLUS Loan. See *Federal Direct PLUS Loan.*

Policies and procedures manual. An in-house manual that helps an institution effectively and consistently manage financial aid using a compilation of written policies and procedures. Although ED does not require such a manual be used, it recommends that a school compile one, especially as federal financial aid regulations require schools to have and maintain certain written policies.

PPA. See *Program Participation Agreement (PPA).*

Prepayment. Any amount paid on a loan before it is required to be paid under the terms of the promissory note. There is never a penalty for prepaying principal or interest on Direct Loans.

Principal and interest. Principal is the loan amount borrowed. Interest is the amount ED (for Direct Loans) charges a borrower for using the money. Interest rates are usually stated in annual percentages. A loan must be repaid; both principal and interest are included in the repayment made by the borrower to ED.

Program Participation Agreement (PPA). A written agreement that must be signed by both a top official at an institution and a representative of the U.S. Secretary of Education that permits the institution to participate in one or more federal student financial aid programs (other than the Leveraging Educational Assistance Partnership [LEAP] Program). The signed agreement makes the institution's initial and continued eligibility to participate in Title IV programs conditional on compliance with all provisions of the applicable laws and program regulations. This agreement may have to be updated periodically due to changes at the institution; schools also have to be recertified at regular intervals. See *Emergency action* and *Limitation, suspension, or termination (LS&T).*

Program review. The process in which the management of one or more federal financial aid programs at an institution is reviewed by ED or a guaranty agency. A program review assesses the institution's compliance with federal laws and regulations and its own school policies. It may also review the institution's overall management and administrative capabilities.

Program review exceptions. Institutional policies, procedures, or actions related to federal student financial aid programs cited in a program review report as being contrary to federal laws or regulations that govern the programs. Also referred to as "findings."

Program year (PY). In the Direct Loan Program, defined according to the award year (July 1 through June 30). It is the time frame schools use to track loans, drawdowns, and disbursements. Compare *Award year* and *Federal fiscal year.*

Program year closeout (PYCO). The yearly process that a school and the Loan Origination Center (LOC) use to account for all loans, drawdowns, and disbursements to borrowers. Ideally, the cash balance should result in $0.

Promissory note. A contract between a lender and a borrower that contains the terms and conditions of the loan, including how the loan must be repaid. It becomes legally binding when signed (executed) by the borrower. See *Master promissory note (MPN).*

PY. See *Program year (PY).*

PYCO. See *Program year closeout (PYCO).*

- Q -

QA. See Quality Assurance (QA).

QAP. See *Quality Assurance Program (QAP).*

Quality assurance (QA). A management process that relies on continuous self-assessment and improvement.

Quality Assurance Program (QAP). An ED quality-control program with an oversight strategy that focuses on results. Within established parameters, schools designated as Quality Assurance Program (QAP) participants develop their own procedures for achieving award accuracy, measuring the effectiveness of their systems, and designing and targeting corrective actions through continuous improvement efforts. Formerly, Institutional Quality Assurance Program (IQAP).

- R -

Reauthorization. The process of continuing and changing current legislation because the existing law has expired and has to be reenacted. It is conducted every five to seven years in the case of the Higher Education Act (HEA), during which time Congress reviews and then renews, terminates, or amends existing programs. (The most recent HEA reauthorization was in 1998.) See *Higher Education Act of 1965, as Amended (HEA)* and *Title IV Student Financial Aid.*

Reconciliation. The monthly process by which a school compares its monthly Direct Loan cash balance with the cash balance reported by the Loan Origination Center (LOC) on the Direct Loan

School Account Statement (DLSAS). *See Direct Loan School Account Statement (DLSAS).*

Reconciliation of cash. A confirmation that the cash amount shown in a school's accounting records agrees with the cash amount reported by the bank. Prompt and thorough cash reconciliation helps ensure the ongoing accuracy of a school's internal-control accounting system.

Refund. This often refers to that portion of funds credited to a student's school account to cover institutional charges that the school returns to ED, a lender, or the student, if the student withdraws from, is expelled from, or drops out of school. If the student received any federal Title IV aid (other than Federal Work-Study), by law, a part of the refund must go to that Title IV program(s). "Refund" also can mean the return of interest or excess cash to ED from GAPS drawdowns or the return of audit and program review liabilities and fines.

Reimbursement payment method. A method certain schools are required to use to request federal financial aid funds from ED. Rather than drawing down Title IV funds *before* disbursing them to students, a school submits a request to ED to be reimbursed for the funds it expended *after* making aid disbursements to students. Payment is made by ACH/EFT.

Renewal FAFSA. A partially completed application form to be updated by a current federal financial aid applicant to be eligible to receive Title IV financial aid for the upcoming (next) award year. To use the Renewal FAFSA, the student must have submitted a FAFSA for the preceding award year. A student may access his or her Renewal FAFSA on the Web, Alternatively, a renewal aid application can be mailed directly to the student by the school or Central Processing System (CPS) to be completed and returned to the CPS. See *Free Application For Federal Student Aid (FAFSA).*

Repayment schedule. A statement provided by the Direct Loan Servicing Center to a borrower that lists the amount borrowed, the amount of monthly payments, and the date payments are due.

- S -

SAIG. See *Student Aid Internet Gateway (SAIG).*

SAP. See *Satisfactory Academic Progress (SAP).*

SAR. See *Student Aid Report (SAR).*

SAR Information Acknowledgement. A federal "output" document, similar to the Student Aid Report (SAR), that ED's central processor sends to a student who files the FAFSA with ED through a postsecondary school's Electronic Data Exchange (EDE). See *Electronic Data Exchange (EDE)* and *Student Aid Report (SAR).*

Satisfactory academic progress (SAP). A satisfactory rate of student course-completion determined using qualitative and quantitative measures. By law, schools whose students receive Title IV funds must create policies for monitoring satisfactory academic progress (SAP). Schools must check at least once a year and document for each payment period that their Title IV aid students are making satisfactory academic progress.

Satisfactory repayment arrangement. A borrower making six consecutive, voluntary, on-time, and full monthly payments on a defaulted Direct Loan. Also, for the purpose of consolidating a loan, a borrower making three consecutive, voluntary, on-time, and full monthly payments on a defaulted loan. (On-time means within 15 days of the scheduled due date.) The resulting required monthly payment may not be more than is reasonable and affordable based on the borrower's financial circumstances.

Self-evaluation. A school's in-house evaluation of the way it administers its student financial aid program. A self-evaluation is undertaken in an effort to detect any problems early on and resolve them.

Self-help aid. Student financial aid loan programs where funds must be repaid *or* employment-opportunity programs awarded to students. Compare *Gift aid.*

Separation of functions. As a part of administering federal student financial aid programs, a school is required to establish and maintain a checks-and-balances internal-control system ensuring that no single school office can both authorize payments and disburse funds to students. Often, this required separation is created by dividing the functions between the school's financial aid office and the school's business office.

Servicer. See *Third-party servicer.*

SFA. Acronym that stands for student financial aid.

Skip tracing. Traditionally, searching for someone with unpaid debts who has left hurriedly or secretly ("skipped") without leaving a forwarding address. In a federal financial aid context, this is when, for whatever reason, a loan borrower no longer lives at the address where the Direct Loan Servicing Center or a lender or school is sending loan billing notices, and the Direct Loan Servicing Center or lender or school must attempt to locate the borrower's correct address. In the search, the law allows the use of any information obtained from the borrower while the borrower was at the school (such as data taken from applications and files), as well as information gleaned from any school office (including the registrar's office and the alumni office). If the borrower still cannot be located using information from the school (or otherwise available to the lender), the lender or school must use ED's free skip-tracing service to try to locate the missing loan borrower.

SSCR. See *Student Status Confirmation Report (SSCR).*

Stafford Loan. See *Federal Direct Stafford/Ford Loan (subsidized)* and *Federal Direct Unsubsidized Stafford/Ford Loan.*

Standard Origination. Under this loan origination option a school performs the following functions,

- creates a loan origination record,
- transmits the record to the servicer,
- receives Direct Loan funds electronically,
- disburses a loan to a borrower,
- creates a disbursement record,
- transmits the disbursement record to the servicer, and
- reconciles on a monthly basis.

The Loan Origination Center (LOC) prepares the promissory note, obtains a completed and signed promissory note from a borrower, and initiates the drawdown of funds for schools participating in standard origination. See *Loan Origination Center (LOC).* Compare *School Origination Option 1* and *School Origination Option 2.*

Standard repayment plan. A plan that requires a borrower to pay at least $50 a month and allows up to 10 years to repay.

Student Aid Internet Gateway (SAIG). The new name for the Title IV Wide Area Network (Title IV WAN or TIV WAN). It is the ED network that provides an electronic link between schools and ED's databases. SAIG links thousands of destination points across the United States, its territories, and certain ED-designated foreign countries to the federal student financial aid programs and delivery system. Organizations enroll individuals as destination point administrators (DPAs) on SAIG. DPAs are assigned destination points (electronic mailboxes) that receive and

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transmit data for various Title IV student aid program system services such as NSLDS, Direct Loan, and CPS. See *Destination point* and *Destination point administrator (DPA).*

Student Aid Report (SAR). The report sent directly to a student from ED's Central Processing System (CPS) that summarizes information submitted on the student's Free Application for Federal Student Aid (FAFSA) and provides financial-need calculations (including the student's Expected Family Contribution [EFC]) on the basis of the submitted figures. The SAR has two parts: Part 1 is the Student Information Summary. Part 2, the Information Review Form or Information Request Form, is where the student can make any needed corrections or information changes. If needed, the student provides corrections and returns Part 2 of the SAR to the CPS. The CPS will then send the student a copy of the corrected SAR. See *Institutional Student Information Record (ISIR)* and *SAR Information Acknowledgement.*

Student Financial Aid Handbook. An ED publication that explains procedures schools should follow in administering federal student financial aid programs. Some of these procedures are required by laws and regulations, while other procedures are necessary for the various reporting systems of Title IV programs.

Student Financial Aid (SFA) Programs. See *Title IV student financial aid.*

Student Status Confirmation Report (SSCR). A report generated by the National Student Loan Data System (NSLDS) to monitor when student borrowers must begin repaying their student loans. The SSCR lists all Direct Loan and FFEL borrowers at a school who were last reported as enrolled at the school. The school must provide NSLDS with certain enrollment information about each of the borrowers.

- T -

Third-party servicer. An individual, state, or organization (whether private, profit, or nonprofit) that enters into a contract with a school to administer through manual or automated processes any aspect of the Title IV program in which the school participates.

Title IV student financial aid. Federal financial aid programs for students attending postsecondary educational institutions, authorized under Title IV of the Higher Education Act of 1965, as amended (HEA). The programs are administered by the U.S. Department of Education. Title IV programs consist of:

- Academic Achievement Incentive Scholarship Program,
- Federal Pell Grants,
- Federal Supplemental Educational Opportunity Grants (FSEOGs),
- Federal Work-Study (FWS),
- Federal Perkins Loans,
- Federal Family Education Loan (FFEL) Program loans,
- Federal Consolidation Loans,
- Gaining Early Awareness and Readiness for Undergraduates Program (GEAR-UP),
- Leveraging Educational Assistance Partnership (LEAP) Program (formerly State Student Incentive Grants [SSIG]),
- William D. Ford Federal Direct Loans, *and*
- Robert C. Byrd Honors Scholarships.

See *Higher Education Act of 1965, as amended (HEA).*

Title IV WAN. See *Title IV Wide Area Network.*

Title IV WAN User. An individual allowed access to a destination point by an assigned destination point administrator (DPA). A Title IV WAN user must read and sign a Title IV WAN User Statement which the DPA must maintain.

Title IV Wide Area Network (Title IV WAN or TIV WAN). ED network that provides an electronic link between schools and ED's databases. The Title IV WAN links thousands of destination points across the United States, its territories, and certain ED-designated foreign countries to the federal student financial aid programs and delivery system. Organizations enroll individuals as destination point administrators (DPAs) on the Title IV WAN. DPAs are assigned destination points (electronic mailboxes) that receive and transmit data for various Title IV student aid program system services such as NSLDS, Direct Loan, and CPS. The network's name is scheduled to change to the Student Aid Internet Gateway (SAIG). See *Destination point* and *Destination point administrator (DPA).*

TIV WAN. See *Title IV Wide Area Network (Title IV WAN or TIV WAN).*

- U -

Undergraduate student. A postsecondary student who does not have a first baccalaureate degree or a first professional degree.

U.S. citizen or national. A student must be one of the following to receive federal student aid:

- U.S. citizen,
- U.S. national (includes natives of American Samoa or Swain's Island),
- U.S. permanent resident who has an I-151, I-551, or I-551C (Alien Registration Receipt Card).

A student (noncitizen) is ineligible for federal student aid, if:

- he or she has only a Notice of Approval to Apply for Permanent Residence (I-171 or I-464),
- he or she is in the U.S. on an F1 or F2 student visa, or on a J1 or J2 exchange-visitor visa only, or
- he or she has a G series visa (pertaining to international organizations).

See *Eligible noncitizen.*

- V -

Variable interest. Rate of interest on a Direct Loan that is tied to a stated index and changes annually every July 1 as the index changes.

Verification. A procedure where a school checks the information a student reported on the FAFSA when applying for Title IV aid, usually by requesting a copy of signed tax returns filed by the student and, if applicable, the student's parent(s) and spouse. Schools must verify information about students selected for verification by ED's Central Processing System (CPS), following procedures established by federal regulations. It is a technical and administrative process of detecting and resolving inaccuracies in data a student (and family) supplied on the FAFSA. The CPS prints an asterisk next to the Expected Family Contribution (EFC) on SARs and SAR Information Acknowledgements and flags ISIRs to identify students selected for verification. Many schools also select certain other students for verification themselves in addition to those selected by the CPS.

- W, X, Y, Z -

No entries.

Direct Loans

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

School Guide

Appendix C: 34 CFR, Part 685

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34 CFR, Part 685

Appendix C

Introduction

Congressional authorization for the Direct Loan Program is in the Higher Education Act of 1965, as amended. Regulations for the Direct Loan Program are in Part 685 of Title 34 of the *Code of Federal Regulations* (CFR). This appendix contains an unofficial version of 34 CFR 685, in its entirety, as of December 31, 1998. The U.S. Department of Education has made every effort to ensure the accuracy of the regulations contained in this unofficial version. However, the only official versions of these regulations are those published in the *Federal Register* and in the *Code of Federal Regulations.*

These regulations will change as new rules are published. You may locate the most recent regulations and *Federal Register* publications affecting these regulations at the following Internet site: http://ifap.ed.gov

Note: Sec. 685.209(a)(3) refers to poverty guidelines released by the U.S. Department of Health and Human Services (HHS). The 1999 poverty guidelines are described on page 68 of this appendix.

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Subpart A: Purpose and Scope

Sec. 685.100—The William D. Ford Federal Direct Loan Program.

(a) Under the William D. Ford Federal Direct Loan (Direct Loan) Program (formerly known as the Federal Direct Student Loan Program), the Secretary makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. This part governs the Federal Direct Stafford/Ford Loan Program, the Federal Direct Unsubsidized Stafford/Ford Loan Program, the Federal Direct PLUS Program, and the Federal Direct Consolidation Loan Program. The Secretary makes loans under the following program components:

(1) Federal Direct Stafford/Ford Loan Program (formerly known as the Federal Direct Stafford Loan Program), which provides loans to undergraduate, graduate, and professional students. The Secretary subsidizes the interest while the borrower is in an in-school, grace, or deferment period.

(2) Federal Direct Unsubsidized Stafford/Ford Loan Program (formerly known as the Federal Direct Unsubsidized Stafford Loan Program), which provides loans to undergraduate, graduate and professional students. The borrower is responsible for the interest that accrues during any period.

(3) Federal Direct PLUS Program, which provides loans to parents of dependent students. The borrower is responsible for the interest that accrues during any period.

(4) Federal Direct Consolidation Loan Program, which provides loans to borrowers to consolidate certain Federal educational loans.

(b) The Secretary makes a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a Direct PLUS Loan only to a student or a parent of a student enrolled in a school that has been selected by the Secretary to participate in the Direct Loan Program.

(c) The Secretary makes a Direct Consolidation Loan only to—

(1) A borrower with a loan made under the Direct Loan Program; or

(2) A borrower with a loan made under the Federal Family Education Loan Program who is not able to receive—

(i) A Federal Consolidation Loan; or

(ii) A Federal Consolidation Loan with income-sensitive repayment terms that are satisfactory to the borrower.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.101—Participation in the Direct Loan Program.

(a) (1) Colleges, universities, graduate and professional schools, vocational schools, and proprietary schools selected by the Secretary may participate in the Direct Loan Program. Participation in the Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance at the school.

(2) The Secretary may permit a school to participate in both the Federal Family Education Loan (FFEL) Program, as defined in 34 CFR Part 600, and the Direct Loan Program. A school permitted to participate in both the FFEL Program and the Direct Loan Program may certify loan applications under the FFEL Program according to the terms of its agreement with the Secretary.

(b) An eligible student who is enrolled at a school participating in the Direct Loan Program may borrow under the Federal Direct Stafford/Ford Loan and Federal Direct Unsubsidized Stafford/Ford Loan Programs. An eligible parent of an eligible dependent student enrolled at a school participating in the Direct Loan Program may borrow under the Federal Direct PLUS Program.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.102—Definitions.

(a) (1) The definitions of the following terms used in this part are set forth in subpart A of the Student Assistance General Provisions, 34 CFR part 668:

- Academic year
- Campus-based programs
- Dependent student
- Disburse
- Eligible program
- Eligible student

- Enrolled
- Federal Consolidation Loan Program
- Federal Direct Student Loan Program (Direct Loan Program)
- Federal Pell Grant Program
- Federal Perkins Loan Program
- Federal PLUS Program
- Federal State Student Incentive Grant Program
- Federal Supplemental Educational Opportunity Grant Program
- Federal Work-Study Program
- Independent student
- One-third of an academic year
- Payment period
- Parent
- State
- Two-thirds of an academic year
- U.S. citizen or national

(2) The following definitions are set forth in the regulations for Institutional Eligibility under the Higher Education Act of 1965, as amended, 34 CFR Part 600

- Accredited
- Clock hour
- Educational program
- Eligible institution
- Federal Family Education Loan (FFEL) Program
- Institution of higher education
- Nationally recognized accrediting agency or association
- Preaccredited
- Program of study by correspondence
- Secretary

(3) The following definitions are set forth in the regulations for the Federal Family Education Loan (FFEL) Program, 34 CFR Part 682:

- Act
- Endorser
- Expected family contribution
- Federal Insured Student Loan (FISL) Program
- Federal Stafford Loan Program
- Foreign school
- Full-time student
- Graduate or professional student
- Guaranty agency
- Holder
- Legal guardian
- Lender
- Totally and permanently disabled
- Undergraduate student

(b) The following definitions also apply to this part:

- *Alternative originator*: An entity under contract with the Secretary that originates Direct Loans to students and parents of students who attend a Direct Loan Program school that does not originate loans.
- *Consortium*: For purposes of this part, a consortium is a group of two or more schools that interacts with the Secretary in the same manner as other schools, except that the electronic communication between the Secretary and the schools is channeled through a single point. Each school in a consortium shall sign a Direct Loan Program participation agreement with the Secretary and be responsible for the information it supplies through the consortium.
- *Default*: The failure of a borrower and endorser, if any, to make an installment payment when due, or to meet other terms of the promissory note, if the Secretary finds it reasonable to conclude that the borrower and endorser, if any, no longer intend to honor the obligation to repay, provided that this failure persists for 180 days.
- *Estimated financial assistance*:

  (1) The estimated amount of assistance for a period of enrollment that a student (or a parent on behalf of a student) will receive from Federal, State, institutional, or other sources, such as scholarships, grants, financial need-based employment, or loans, including but not limited to—

  (i) Veterans' educational benefits paid under chapters 30, 31, 32, and 35 of title 38 of the United States Code;

  (ii) Educational benefits paid under chapters 106 and 107 of title 10 of the United States Code (Selected Reserve Educational Assistance Program);

  (iii) Reserve Officer Training Corps (ROTC) scholarships and subsistence allowances awarded under chapter 2 of title 10 and chapter 2 of title 37 of the United States Code;

  (iv) Benefits paid under Public Law 97-376, section 156: Restored Entitlement Program for Survivors (or Quayle benefits);

  (v) Benefits paid under Public Law 96-342, section 903: Educational Assistance Pilot Program;

  (vi) Any educational benefits paid because of enrollment in a postsecondary education institution;

  (vii) The estimated amount of other Federal student financial aid, including but not limited to a Federal Pell Grant, campus-based aid, and the gross amount (including fees) of a Direct Subsidized, Direct

Unsubsidized, and Direct PLUS Loan.

(2) Estimated financial assistance does not include—

(i) Those amounts used to replace the expected family contribution, including—

(A) Direct PLUS Loan amounts;

(B) Direct Unsubsidized Loan amounts; and

(C) Non-Federal loan amounts; and

(ii) Federal Perkins loan and Federal Work-Study funds that the student has declined.

- *Federal Direct Consolidation Loan Program:* A loan program authorized by title IV, part D of the Act that provides loans to borrowers who consolidate certain Federal educational loan(s), and one of the components of the Direct Loan Program. Loans made under this program are referred to as Direct Consolidation Loans. There are three types of Direct Consolidation Loans:

  (1) Direct Subsidized Consolidation Loans. Subsidized title IV education loans may be consolidated into a Direct Subsidized Consolidation Loan. Interest is not charged to the borrower during in-school, grace, and deferment periods.

  (2) Direct Unsubsidized Consolidation Loans. Certain Federal education loans may be consolidated into a Direct Unsubsidized Consolidation Loan. The borrower is responsible for the interest that accrues during any period.

  (3) Direct PLUS Consolidation Loans. Parent Loans for Undergraduate Students, Federal PLUS, Direct PLUS, and Direct PLUS Consolidation Loans may be consolidated into a Direct PLUS Consolidation Loan. The borrower is responsible for the interest that accrues during any period.

- *Federal Direct PLUS Program:* A loan program authorized by title IV, part D of the Act that provides loans to parents of dependent students attending schools that participate in the Direct Loan Program, and one of the components of the Direct Loan Program. The borrower is responsible for the interest that accrues during any period. Loans made under this program are referred to as Direct PLUS Loans.

- *Federal Direct Stafford/Ford Loan Program:* A loan program authorized by title IV, part D of the Act that provides loans to undergraduate, graduate, and professional students attending Direct Loan Program schools, and one of the components of the Direct Loan Program. The Secretary subsidizes the interest while the borrower is in an in-school, grace, or deferment period. Loans made under this program are referred to as Direct Subsidized Loans.

- *Federal Direct Unsubsidized Stafford/Ford Loan Program:* A loan program authorized by title IV, part D of the Act that provides loans to undergraduate, graduate, and professional students attending Direct Loan Program schools, and one of the components of the Direct Loan Program. The borrower is responsible for the interest that accrues during any period. Loans made under this program are referred to as Direct Unsubsidized Loans.

- *Grace period*: A six-month period that begins on the day after a Direct Loan Program borrower ceases to be enrolled as at least a half-time student at an eligible institution and ends on the day before the repayment period begins.
- *Half-time student*: A student who is not a full-time student and who is enrolled in a school participating in the FFEL Program or the Direct Loan Program and is carrying an academic workload that is at least one-half the workload of a full-time student, as determined by the school. A student enrolled solely in an eligible program of study by correspondence is considered a half-time student.
- *Interest rate*: The annual interest rate that is charged on a loan, under title IV, part D of the Act.
- *Loan fee*: A fee, payable by the borrower, that is used to help defray the costs of the Direct Loan Program.
- *Period of enrollment*: The period for which a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan is intended. The period of enrollment must coincide with one or more academic terms established by the school (such as semester, trimester, quarter, academic year, and length of the program of study), for which institutional charges are generally assessed. The period of enrollment is also referred to in this part as the loan period.
- *Satisfactory repayment arrangement.*
  (1) For the purpose of regaining eligibility under section 428F(b) of the HEA, the making of six consecutive, voluntary, on-time, full monthly payments on a defaulted loan. A borrower may only obtain the benefit of this paragraph with respect to renewed eligibility once.

  (2) For the purpose of consolidating a defaulted loan under 34 CFR 685.215(d)(1) (ii)(E), the making of three consecutive, voluntary, on-time, full monthly payments on a defaulted loan.

  (3) The required monthly payment amount may not be more than is reasonable and affordable based on the borrower's total financial circumstances. "On-time" means a payment made within 15 days of the scheduled due date, and voluntary payments are those payments made directly by the borrower, regardless of whether there is a judgment against the borrower, and do not include payments obtained by income tax offset, garnishment, or income or asset execution.
- *School origination option 1:* In general, under this option the school performs the following functions: creates a loan

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origination record, transmits the record to the Servicer, prepares the promissory note, obtains a completed and signed promissory note from a borrower, transmits the promissory note to the Servicer, receives the funds electronically, disburses a loan to a borrower, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis. The Servicer initiates the drawdown of funds for schools participating in school origination option 1. The Secretary may modify the functions performed by a particular school.

- *School origination option 2:* In general, under this option the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, prepares the promissory note, obtains a completed and signed promissory note from a borrower, transmits the promissory note to the Servicer, determines funding needs, initiates the drawdown of funds, receives the funds electronically, disburses a loan to a borrower, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis. The Secretary may modify the functions performed by a particular school.
- *Servicer:* An entity that has contracted with the Secretary to act as the Secretary's agent in providing services relating to the origination or servicing of Direct Loans.
- *Standard origination:* In general, under this option the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, receives funds electronically, disburses funds, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis. The Servicer prepares the promissory note, obtains a completed and signed promissory note from a borrower, and initiates the drawdown of funds for schools participating in standard origination. The Secretary may modify the functions performed by a particular school.

(Authority: 20 U.S.C. 1087a et seq.)

Note: "School origination option 1," "School origination option 2," and "Standard origination" definitions amended December 1, 1995, effective July 1, 1996. (a)(3) and (b) revised June 12, 1996, effective July 12, 1996. (a)(1) introductory clause amended and "Payment period" added to (a)(1) November 29, 1996, effective July 1, 1997.

Sec. 685.103—Applicability of subparts.

(a) Subpart A contains general provisions regarding the purpose and scope of the Direct Loan Program.

(b) Subpart B contains provisions regarding borrowers in the Direct Loan Program.

(c) Subpart C contains certain requirements regarding schools in the Direct Loan Program.

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(d) Subpart D contains provisions regarding school eligibility for participation and origination in the Direct Loan Program.

(Authority: 20 U.S.C. 1087a et seq.)

Subpart B: Borrower Provisions

Sec. 685.200—Borrower eligibility.

(a) *Student borrower.*

(1) A student is eligible to receive a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a combination of these loans, if the student meets the following requirements:

(i) The student is enrolled, or accepted for enrollment, on at least a half-time basis in a school that participates in the Direct Loan Program.

(ii) The student meets the requirements for an eligible student under 34 CFR Part 668.

(iii) In the case of an undergraduate student who seeks a Direct Subsidized Loan or a Direct Unsubsidized Loan at a school that participates in the Federal Pell Grant Program, the student has received a determination of Federal Pell Grant eligibility for the period of enrollment for which the loan is sought.

(iv) In the case of a borrower whose previous loan was cancelled due to total and permanent disability, the student—

(A) Obtains a certification from a physician that the borrower is able to engage in substantial gainful activity; and

(B) Signs a statement acknowledging that the Direct Loan the borrower receives cannot be cancelled in the future on the basis of any impairment present when the new loan is made, unless that impairment substantially deteriorates.

(v) In the case of any student who seeks a loan but does not have a certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate, the student meets the requirements under 34 CFR 668.7(b).

(2) (i) A Direct Subsidized Loan borrower must demonstrate financial need in accordance with title IV, part F of the Act.

(ii) The Secretary considers a member of a religious order, group, community, society, agency, or other organization who is pursuing a course of study at an institution of higher education to have no financial need if that organization—

(A) Has as its primary objective the promotion of ideals and beliefs regarding a Supreme Being;

(B) Requires its members to forego monetary or other support substantially beyond the support it provides; and

(C) (1) Directs the member to pursue the course of study; or

(2) Provides subsistence support to its members.

(b) *Parent borrower.*

(1) A parent is eligible to receive a Direct PLUS Loan if the parent meets the following requirements:

(i) The parent is borrowing to pay for the educational costs of a dependent undergraduate student who meets the requirements for an eligible student under 34 CFR Part 668.

(ii) The parent provides his or her and the student's social security number.

(iii) The parent meets the requirements pertaining to citizenship and residency that apply to the student under 34 CFR 668.7.

(iv) The parent meets the requirements concerning defaults and overpayments that apply to the student in 34 CFR 668.7.

(v) The parent complies with the requirements for submission of a Statement of Educational Purpose that apply to the student under 34 CFR Part 668, except for the completion of a Statement of Selective Service Registration Status.

(vi) The parent meets the requirements that apply to a student under paragraph (a)(1)(iv) of this section.

(vii) (A) The parent—

(1) Does not have an adverse credit history;

(2) Has an adverse credit history but has obtained an endorser who does not have an adverse credit history; or

(3) Has an adverse credit history but documents to the satisfaction of the Secretary that extenuating circumstances exist.

(B) For purposes of paragraph (b)(1)(vii)(A) of this section, an adverse credit history means that as of the date of the credit report, the applicant—

(1) Is 90 or more days delinquent on any debt; or

(2) Has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a debt under title IV of the Act during the five years preceding the date of the credit report.

(C) For the purposes of (b)(1)(vii)(A) of this section, the Secretary does not consider the absence of a credit history as an adverse credit history and does not deny a Direct PLUS loan on that basis.

(2) For purposes of paragraph (b)(1) of this section, a "parent" includes the individuals described in the definition of "parent" in 34 CFR 668.2 and the spouse of a parent who remarried, if that spouse's income and assets would have been taken into account when calculating a dependent student's expected family contribution.

(c) *Defaulted FFEL Program and Direct Loan borrowers.* Except as noted in Sec. 685.215(d)(1)(ii)(F), in the case of a student or parent borrower who is currently in default on an FFEL Program or a Direct Loan Program Loan, the borrower shall make satisfactory repayment arrangements, as described in paragraph (2) of the definition of that term under Sec. 685.102(b), on the defaulted loan.

(d) *Use of loan proceeds to replace expected family contribution.* The amount of a Direct Unsubsidized Loan, a Direct PLUS Loan, a State-sponsored loan, or another non-Federal loan obtained for a loan period may be used to replace the expected family contribution for that loan period.

(Authority: 20 U.S.C. 1087a et seq.)

Note: (b)(1) redesignated and (b)(2) added December 1, 1995, effective July 1, 1996. (a)(1)(i) and (c) revised June 12, 1996, effective July 12, 1996.

Sec. 685.201—Obtaining a loan.

(a) *Application for a Direct Subsidized Loan or a Direct Unsubsidized Loan.*

(1) To obtain a Direct Subsidized Loan or a Direct Unsubsidized Loan, a student shall complete a Free Application for Federal Student Aid and submit it in accordance with instructions in the application.

(2) If the student is eligible for a Direct Subsidized Loan or a Direct Unsubsidized Loan, the Secretary or the school in which the student is enrolled shall perform specific functions. Unless a school's agreement with the Secretary specifies otherwise, the school shall perform the following functions:

(i) A school participating under school origination option 2 shall create a loan origination record, obtain a completed promissory note from the student, draw down funds, and disburse the funds.

(ii) A school participating under school origination option 1 shall create a loan origination record, obtain a completed promissory note from the student, and transmit the record and promissory note to the Servicer. The Servicer initiates the drawdown of funds, and the school disburses the funds.

(iii) If the student is attending a school participating under standard origination, the school shall create a loan origination record and transmit the record to the alternative originator, which prepares the promissory note and sends it to the student and receives the completed promissory note from the student. The Servicer initiates the drawdown of funds, and the school disburses the funds.

(b) *Application for a Direct PLUS Loan.* To obtain a Direct PLUS Loan, the parent shall complete the application and promissory note and submit it to the school at which the student is enrolled. The school shall complete its portion of the application and promissory note and submit it to the Servicer, which makes a determination as to whether the parent has an adverse credit history. Unless a school's agreement with the Secretary specifies otherwise, the school shall perform the following functions: A school participating under school origination option 2 shall draw down funds and disburse the funds. For a school participating under school origination option 1 or standard origination, the Servicer initiates the drawdown of funds, and the school disburses the funds.

(c) *Application for a Direct Consolidation Loan.*

(1) To obtain a Direct Consolidation Loan, the applicant shall complete the application and promissory note and submit it to the Servicer. The application and promissory note set forth the terms and conditions of the Direct Consolidation Loan and inform the applicant how to contact the Servicer. The Servicer answers questions regarding the process of applying for a Direct Consolidation Loan and provides information about the terms and conditions of both Direct Consolidation Loans and the types of loans that may be consolidated.

(2) Once the applicant has submitted the completed application and promissory note to the Servicer, the Secretary makes the Direct Consolidation Loan under the procedures specified in Sec. 685.215.

(Authority: 20 U.S.C. 1087a et seq., 1091a)

Note: (a)(2) introductory text and (b) amended December 1, 1995, effective July 1, 1996.

Sec. 685.202—Charges for which Direct Loan Program borrowers are responsible.

(a) *Interest.*

(1) *Interest rate for Direct Subsidized Loans and Direct Unsubsidized Loans.*

(i) *Loans first disbursed prior to July 1, 1995.* For Direct Subsidized Loans and Direct Unsubsidized Loans during all periods, the interest rate during any twelve-month period beginning on July 1 and ending on June 30 is determined on the June 1 immediately preceding that period. The interest rate is equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to that June 1 plus 3.1 percentage points, but does not exceed 8.25 percent.

(ii) *Loans first disbursed on or after July 1, 1995.*

(A) During the in-school, grace, and deferment periods. The interest rate during any twelve-month period beginning on July 1 and ending on June 30 is determined on the June 1 immediately preceding that period. The interest rate is equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to that June 1 plus 2.5 percentage points, but does not exceed 8.25 percent.

(B) During all other periods. The interest rate during any twelve-month period beginning on July 1 and ending on June 30 is determined on the June 1 immediately preceding that period. The interest rate is equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to that June 1 plus 3.1 percentage points, but does not exceed 8.25 percent.

(2) *Interest rate for the Direct PLUS Loans.* The interest rate on a Direct PLUS Loan during any twelve-month period beginning on July 1 and ending on June 30 is determined on the June 1 preceding that period. The interest rate is equal to the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to that June 1 plus 3.1 percentage points, but does not exceed 9 percent.

(b) *Capitalization.*

(1) The Secretary may add unpaid accrued interest to the borrower's unpaid principal balance. This increase in the principal balance of a loan is called "capitalization."

(2) For a Direct Unsubsidized Loan or a Direct Unsubsidized Consolidation Loan that qualifies for a grace period, the Secretary capitalizes the unpaid interest that accrues on the loan when the borrower enters repayment.

(3) Notwithstanding Sec. 685.208(g)(5) and Sec. 685.209(d)(3), for a Direct Loan not eligible for interest subsidies during periods of deferment, and for all Direct Loans during periods of forbearance, the Secretary capitalizes the unpaid interest that has accrued on the loan upon the expiration of the deferment or forbearance.

(4) Except as provided in paragraph (b)(3) of this section and in Sec. 685.208(g)(5), and Sec. 685.209(d)(3), the Secretary annually capitalizes unpaid interest when the borrower is paying under the alternative or income contingent repayment plans and the borrower's scheduled payments do not cover the interest that has accrued on the loan.

(5) The Secretary may capitalize unpaid interest when the borrower defaults on the loan.

(c) *Loan fee for Direct Subsidized, Direct Unsubsidized, and Direct PLUS Loans.* The Secretary—

(1) Charges a borrower a loan fee of four percent of the principal amount of the loan on a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan;

(2) Deducts the loan fee from the proceeds of the loan;

(3) In the case of a loan disbursed in multiple installments, deducts a pro rated portion of the fee from each disbursement; and

(4) Applies to a borrower's loan balance the portion of the loan fee previously deducted from the loan that is attributable to any portion of the loan that is—

(i) Repaid or returned within 120 days of disbursement, unless—

(A) The borrower has no Direct Loans in repayment status and has requested, in writing, that the repaid or returned funds be used for a different purpose; or

(B) The borrower has a Direct Loan in repayment status, in which case the payment is applied in accordance with Sec. 685.211(a) unless the borrower has requested, in writing, that the repaid or returned funds be applied as a cancellation of all or part of the loan; or

(ii) Returned by a school in order to comply with the Act or with applicable regulations.

(d) *Late charge.*

(1) The Secretary may require the borrower to pay a late charge of up to six cents for each dollar of each installment or portion thereof that is late under the circumstances described in paragraph (d)(2) of this section.

(2) The late charge may be assessed if the borrower fails to pay all or a portion of a required installment payment within 30 days after it is due.

(e) (1) *Collection charges before default.* Notwithstanding any provision of State law, the Secretary may require that the borrower or any endorser pay costs incurred by the Secretary or the Secretary's agents in collecting installments not paid when due. These charges do not include routine collection costs associated with preparing letters or notices or with making personal contacts with the borrower (e.g., local and long-distance telephone calls).

(2) *Collection charges after default.* If a borrower defaults on a Direct Loan, the Secretary assesses collection costs on the basis of 34 CFR 30.60.

(Authority: 20 U.S.C. 1087a et seq., 1091a)

Note: (a)(1) and (b) revised June 12, 1996, effective July 12, 1996. (c)(4) revised November 28, 1997, effective July 1, 1998.

Sec. 685.203—Loan limits.

(a) *Direct Subsidized Loans.*

(1) In the case of an undergraduate student who has not successfully completed the first year of a program of undergraduate education, the total amount the student may borrow for any academic year of study under the Federal Direct Stafford/Ford Loan Program in combination with the Federal Stafford Loan Program may not exceed the following:

(i) $2,625 for a program of study of at least a full academic year in length.

(ii) $1,750 for a program of study of at least two-thirds but less than a full academic year in length.

(iii) $875 for a program of study of at least one-third but less than two-thirds of an academic year in length.

(2) In the case of an undergraduate student who has successfully completed the first year of an undergraduate program but has not successfully completed the second year of an undergraduate program, the total amount the student may borrow for any academic year of study under the Federal Direct Stafford/Ford Loan Program in combination with the Federal Stafford Loan Program may not exceed the following:

(i) $3,500 for a program of study of at least a full academic year in length.

(ii) If the student is enrolled in a program of study with less than a full academic year remaining, an amount that bears the same ratio to $3,500 as the number of semester, trimester, quarter, or clock hours for which the student enrolls bears to one academic year.

(3) In the case of an undergraduate student who has successfully completed the first and second years of a program of study of undergraduate education but has not successfully completed the remainder of the program, or in the case of a student in a program who has an associate or baccalaureate degree which is required for admission into the program, the total amount the student may borrow for any academic year of study under the Federal Direct Stafford/Ford Loan Program in combination with the Federal Stafford Loan Program may not exceed the following:

(i) $5,500 for a program of study of at least an academic year in length.

(ii) For a student enrolled in a program of study with less than a full academic year remaining, an amount that bears the same ratio to $5,500 as the number of semester, trimester, quarter, or clock hours for which the student enrolls bears to one academic year.

(4) In the case of a graduate or professional student, the total amount the student may borrow for any academic year of study under the Federal Direct Stafford/Ford Loan Program in combination with the

Federal Stafford Loan Program may not exceed $8,500.

(b) *Direct Unsubsidized Loans.* The total amount a student may borrow under any period of study for the Federal Direct Unsubsidized Loan Program and the Federal Unsubsidized Stafford/Ford Loan Program is the same as the amount determined under paragraph (a) of this section, less any amount received under the Federal Direct Stafford/Ford Loan Program or the Federal Stafford Loan Program.

(c) *Additional eligibility for Direct Unsubsidized Loans.*

(1) (i) An independent undergraduate student, graduate or professional student, and certain dependent undergraduate students may borrow amounts under the Federal Direct Unsubsidized Loan Program in addition to any amount borrowed under paragraph (b) of this section.

(ii) In order for a dependent undergraduate student to receive this additional loan amount, the financial aid administrator must determine that the student's parent likely will be precluded by exceptional circumstances from borrowing under the Federal Direct PLUS Program or the Federal PLUS Program and the student's family is otherwise unable to provide the student's expected family contribution. The financial aid administrator shall base the determination on a review of the family financial information provided by the student and consideration of the student's debt burden and shall document the determination in the school's file.

(iii) "Exceptional circumstances" under paragraph (c)(1)(ii) of this section include but are not limited to circumstances in which the student's parent receives only public assistance or disability benefits, the parent is incarcerated, the parent has an adverse credit history, or the parent's whereabouts are unknown. A parent's refusal to borrow a Federal PLUS Loan or Direct PLUS Loan does not constitute "exceptional circumstances."

(2) The additional amount that a student described in paragraph (c)(1)(i) of this section may borrow under the Federal Direct Unsubsidized Stafford/Ford Loan Program and the Federal Unsubsidized Stafford Loan Program for any academic year of study may not exceed the following:

(i) In the case of a student who has not successfully completed the first and second year of a program of undergraduate education—

(A) $4,000 for enrollment in a program of study of at least a full academic year in length;

(B) $2,500 for enrollment in a program of study of at least two-thirds but less than a full academic year in length; and

(C) $1,500 for enrollment in a program of study of at least one-third but less than two-thirds of an academic year in length.

(ii) In the case of a student who has successfully completed the first and second year of an undergraduate program but has not completed the remainder of the program of study—

(A) For a student enrolled in a program of study of at least a full academic year, $5,000; and

(B) For a student enrolled in a program of study with less than a full academic year remaining, an amount that bears the same ratio to $5,000 as the number of semester, trimester, quarter, or clock hours for which the student enrolls bears to one academic year.

(iii) In the case of a graduate or professional student, $10,000.

(d) *Federal Direct Stafford/Ford Loan Program and Federal Stafford Loan Program aggregate limits.* The aggregate unpaid principal amount of all Direct Subsidized Loans and Federal Stafford Loans made to a student may not exceed the following:

(1) $23,000 in the case of any student who has not successfully completed a program of study at the undergraduate level.

(2) $65,500 in the case of a graduate or professional student, including loans for undergraduate study.

(e) *Aggregate limits for unsubsidized loans.* The total amount of Direct Unsubsidized Loans, Federal Unsubsidized Stafford Loans, and Federal SLS Loans may not exceed the following:

(1) For a dependent undergraduate student, $23,000 minus any Direct Subsidized Loan and Federal Stafford Loan amounts, unless the student qualifies under paragraph (c) of this section for additional eligibility or qualified for that additional eligibility under the Federal SLS Program.

(2) For an independent undergraduate or a dependent undergraduate who qualifies for additional eligibility under paragraph (c) of this section or qualified for this additional eligibility under the Federal SLS Program, $46,000 minus any Direct Subsidized Loan and Federal Stafford Loan amounts.

(3) For a graduate or professional student, $138,500 including any loans for undergraduate study, minus any Direct Subsidized Loan, Federal Stafford Loan, and Federal SLS Program loan amounts.

(f) *Direct PLUS Loans annual limit.* The total amount of all Direct PLUS Loans that a parent or parents may borrow on behalf of each dependent student for any academic year of study may not exceed the cost of attendance minus other estimated financial assistance for that student.

(g) *Direct PLUS Loans aggregate limit.* The total amount of all Direct PLUS Loans that a parent or parents may borrow on behalf of each dependent student for enrollment

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in an eligible program of study may not exceed the student's cost of attendance minus other estimated financial assistance for that student for the entire period of enrollment.

(h) *Loan limit period.* The annual loan limits apply to an academic year.

(i) *Treatment of Direct Consolidation Loans and Federal Consolidation Loans.* The percentage of the outstanding balance on Direct Consolidation Loans or Federal Consolidation Loans counted against a borrower's aggregate loan limits is calculated as follows:

(1) For Direct Subsidized Loans, the percentage equals the percentage of the original amount of the Direct Consolidation Loan or Federal Consolidation Loan attributable to the Direct Subsidized and Federal Stafford Loans.

(2) For Direct Unsubsidized Loans, the percentage equals the percentage of the original amount of the Direct Consolidation Loan or Federal Consolidation Loan attributable to the Direct Unsubsidized, Federal SLS, and Federal Unsubsidized Stafford Loans.

(j) *Maximum loan amounts.* In no case may a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan amount exceed the student's estimated cost of attendance for the period of enrollment for which the loan is intended, less—

(1) The student's estimated financial assistance for that period; and

(2) In the case of a Direct Subsidized Loan, the borrower's expected family contribution for that period.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.204—Deferment.

(a) (1) A Direct Loan borrower whose loan is eligible for interest subsidies and who meets the requirements described in paragraph (b) of this section is eligible for a deferment during which periodic installments of principal and interest need not be paid.

(2) A Direct Loan borrower whose loan is not eligible for interest subsidies and who meets the requirements described in paragraph (b) of this section is eligible for a deferment during which periodic installments of principal need not be paid but interest does accrue and is capitalized or paid by the borrower.

(b) Except as provided in paragraphs (d) and (e) of this section, a Direct Loan borrower is eligible for a deferment during any period during which the borrower meets any of the following requirements:

(1) (i) The borrower—

(A) Is carrying at least one-half the normal full-time work load for the course of study that the borrower is pursuing, as determined by the eligible school the borrower is attending;

(B) Is pursuing a course of study pursuant to a graduate fellowship program approved by the Secretary; or

(C) Is pursuing a rehabilitation training program, approved by the Secretary, for individuals with disabilities; and

(ii) The borrower is not serving in a medical internship or residency program, except for a residency program in dentistry.

(2) (i) The borrower is seeking and unable to find full-time employment.

(ii) For purposes of paragraph (b)(2)(i) of this section, the Secretary determines whether a borrower is eligible for a deferment due to the inability to find full-time employment using the standards and procedures set forth in 34 CFR 682.210(h) with references to the lender understood to mean the Secretary.

(3) (i) The borrower has experienced or will experience an economic hardship.

(ii) For purposes of paragraph (b)(3)(i) of this section, the Secretary determines whether a borrower is eligible for a deferment due to an economic hardship using the standards and procedures set forth in 34 CFR 682.210(s)(6) with references to the lender understood to mean the Secretary.

(c) No deferment under paragraphs (b) (2) or (3) of this section may exceed three years.

(d) If, at the time of application for a borrower's first Direct Loan, a borrower has an outstanding balance of principal or interest owing on any FFEL Program loan that was made, insured, or guaranteed prior to July 1, 1993, the borrower is eligible for a deferment during—

(1) the periods described in paragraph (b) of this section; and

(2) the periods described in 34 CFR 682.210(b), including those periods that apply to a "new borrower" as that term is defined in 34 CFR 682.210(b)(7).

(e) A borrower whose loan is in default is not eligible for a deferment, unless the borrower has made payment arrangements satisfactory to the Secretary.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995.

Note: (b) and (d) revised and (e) added June 12, 1996, effective July 12, 1996.

Sec. 685.205—Forbearance.

(a) *General.* "Forbearance" means permitting the temporary cessation of payments, allowing an extension of time for making payments, or temporarily accepting smaller payments than previously scheduled. The borrower has the option to choose the form of forbearance. If payments of interest are forborne, they are capitalized. The Secretary grants forbearance if the borrower or endorser intends to repay the loan but requests forbearance and provides sufficient documentation to support this request, and—

(1) The Secretary determines that, due to poor health or other acceptable reasons, the borrower or endorser is currently unable to make scheduled payments;

(2) The borrower's payments of principal are deferred under Sec. 685.204 and the Secretary does not subsidize the interest benefits on behalf of the borrower.

(3) The borrower is in a medical or dental internship or residency that must be successfully completed before the borrower may begin professional practice or service, or the borrower is serving in a medical or dental internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training;

(4) The borrower is serving in a national service position for which the borrower is receiving a national service educational award under the National and Community Service Trust Act of 1993;

(5) The borrower is eligible for loan forgiveness under the Federal Stafford Loan Forgiveness Demonstration Program, if the program is funded, for performing the type of service described in Sec. 682.215(b); or

(6) For not more than three years during which the borrower or endorser—

(i) Is currently obligated to make payments on loans under title IV of the Act; and

(ii) The sum of these payments each month (or a proportional share if the payments are due less frequently than monthly) is equal to or greater than 20 percent of the borrower's or endorser's total monthly gross income.

(b) *Administrative forbearance.* In certain circumstances, the Secretary grants forbearance without requiring documentation from the borrower. These circumstances include but are not limited to—

(1) A properly granted period of deferment for which the Secretary learns the borrower did not qualify;

(2) The period for which payments are overdue at the beginning of an authorized deferment period;

(3) The period beginning when the borrower entered repayment until the first payment due date was established;

(4) The period prior to a borrower's filing of a bankruptcy petition;

(5) A period after the Secretary receives reliable information indicating that the borrower (or the student in the case of a Direct PLUS Loan) has died, or the borrower has become totally and permanently disabled, until the Secretary receives

documentation of death or total and permanent disability;

(6) Periods necessary for the Secretary to determine the borrower's eligibility for discharge—

  (i) Under Sec. 685.213;

  (ii) Under Sec. 685.214; or

  (iii) Due to the borrower's or endorser's (if applicable) bankruptcy;

(7) A period of up to three years in cases where the effect of a variable interest rate on a fixed-amount or graduated repayment schedule causes the extension of the maximum repayment term; or

(8) A period during which the Secretary has authorized forbearance due to a national military mobilization or other local or national emergency.

(c) *Period of forbearance.*

(1) The Secretary grants forbearance for a period of up to one year.

(2) The forbearance is renewable, upon request of the borrower, for the duration of the period in which the borrower meets the condition required for the forbearance.

(Authority: 20 U.S.C. 1087a et seq.)

Note: (a)(4) revised June 12, 1996, effective July 12, 1996.

Sec. 685.206—Borrower responsibilities and defenses.

(a) The borrower shall give the school the following information as part of the origination process for a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan:

(1) A statement, as described in 34 CFR Part 668, that the loan will be used for the cost of the student's attendance.

(2) Information demonstrating that the borrower is eligible for the loan.

(3) Information concerning the outstanding FFEL Program and Direct Loan Program loans of the borrower and, for a parent borrower, of the student, including any Federal Consolidation Loan or Direct Consolidation Loan.

(4) A statement authorizing the school to release to the Secretary information relevant to the student's eligibility to borrow or to have a parent borrow on the student's behalf (e.g., the student's enrollment status, financial assistance, and employment records).

(b) (1) The borrower shall promptly notify the Secretary of any change of name, address, student status to less than half-time, employer, or employer's address; and

(2) The borrower shall promptly notify the school of any change in address during enrollment.

(c) *Borrower defenses.*

(1) In any proceeding to collect on a Direct Loan, the borrower may assert as a defense against repayment, any

act or omission of the school attended by the student that would give rise to a cause of action against the school under applicable State law. These proceedings include, but are not limited to, the following:

(i) Tax refund offset proceedings under 34 CFR 30.33.

(ii) Wage garnishment proceedings under section 488A of the Act.

(iii) Salary offset proceedings for Federal employees under 34 CFR Part 31.

(iv) Credit bureau reporting proceedings under 31 U.S.C. 3711(f).

(2) If the borrower's defense against repayment is successful, the Secretary notifies the borrower that the borrower is relieved of the obligation to repay all or part of the loan and associated costs and fees that the borrower would otherwise be obligated to pay. The Secretary affords the borrower such further relief as the Secretary determines is appropriate under the circumstances. Further relief may include, but is not limited to, the following:

(i) Reimbursing the borrower for amounts paid toward the loan voluntarily or through enforced collection.

(ii) Determining that the borrower is not in default on the loan and is eligible to receive assistance under title IV of the Act.

(iii) Updating reports to credit bureaus to which the Secretary previously made adverse credit reports with regard to the borrower's Direct Loan.

(3) The Secretary may initiate an appropriate proceeding to require the school whose act or omission resulted in the borrower's successful defense against repayment of a Direct Loan to pay to the Secretary the amount of the loan to which the defense applies. However, the Secretary does not initiate such a proceeding after the period for the retention of records described in Sec. 685.309(c) unless the school received actual notice of the claim during that period.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995.

Sec. 685.207—Obligation to repay.

(a) *Obligation of repayment in general.*

(1) A borrower is obligated to repay the full amount of a Direct Loan, including the principal balance, fees, any collection costs charged under Sec. 685.202(e), and any interest not subsidized by the Secretary, unless the borrower is relieved of the obligation to repay as provided in this part.

(2) The borrower's repayment of a Direct Loan may also be subject to the deferment provisions in Sec. 685.204, the forbearance provisions in Sec. 685.205, and the discharge provisions in Sec. 685.212.

(b) *Direct Subsidized Loan repayment.*

(1) During the period in which a borrower is enrolled at an eligible school on at least a half-time basis, the borrower is in an "in-school" period and is not required to make payments on a Direct Subsidized Loan unless—

(i) The loan entered repayment before the in-school period began; and

(ii) The borrower has not been granted a deferment under Sec. 685.204.

(2) (i) When a borrower ceases to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins, unless the grace period has been previously exhausted.

(ii) During a grace period, the borrower is not required to make payments on a Direct Subsidized Loan.

(3) A borrower is not obligated to pay interest on a Direct Subsidized Loan for in-school or grace periods unless the borrower is required to make payments on the loan during those periods under paragraph (b)(1) of this section.

(4) The repayment period for a Direct Subsidized Loan begins the day after the grace period ends. A borrower is obligated to repay the loan under paragraph (a) of this section during the repayment period.

(c) *Direct Unsubsidized Loan repayment.*

(1) During the period in which a borrower is enrolled at an eligible school on at least a half-time basis, the borrower is in an "in-school" period and is not required to make payments of principal on a Direct Unsubsidized Loan unless—

(i) The loan entered repayment before the in-school period began; and

(ii) The borrower has not been granted a deferment under Sec. 685.204.

(2) (i) When a borrower ceases to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins, unless the grace period has been previously exhausted.

(ii) During a grace period, the borrower is not required to make any principal payments on a Direct Unsubsidized Loan.

(3) A borrower is responsible for the interest that accrues on a Direct Unsubsidized Loan during in-school and grace periods. Interest begins to accrue on the day the first installment is disbursed. Interest that accrues may be capitalized or paid by the borrower.

(4) The repayment period for a Direct Unsubsidized Loan begins the day after the grace period ends. A borrower is obligated to repay the loan

under paragraph (a) of this section during the repayment period.

(d) *Direct PLUS Loan repayment.* The repayment period for a Direct PLUS Loan begins on the day the loan is fully disbursed. Interest begins to accrue on the day the first installment is disbursed. A borrower is obligated to repay the loan under paragraph (a) of this section during the repayment period.

(e) *Direct Consolidation Loan repayment.*

(1) Except as provided in paragraphs (e)(2) and (e)(3) of this section, the repayment period for a Direct Consolidation Loan begins and interest begins to accrue on the day the loan is made. The borrower is obligated to repay the loan under paragraph (a) of this section during the repayment period.

(2) A borrower who obtains a Direct Subsidized Consolidation Loan during an in-school period will be subject to the repayment provisions in paragraph (b) of this section.

(3) A borrower who obtains a Direct Unsubsidized Consolidation Loan during an in-school period will be subject to the repayment provisions in paragraph (c) of this section.

(f) *Determining the date on which the grace period begins for a borrower in a correspondence program.* For a borrower of a Direct Subsidized or Direct Unsubsidized Loan who is a correspondence student, the grace period begins on the earliest of the date—

(1) The borrower completes the program;

(2) The borrower falls 60 days behind the due date for submission of a scheduled assignment, according to the schedule required in Sec. 685.302. However, a school may grant the borrower one restoration to in-school status if the borrower fails to submit a lesson within this 60-day period after the due date for submission of a particular assignment if, within the 60-day period, the borrower declares, in writing, an intention to continue in the program and an understanding that the required lessons must be submitted on time; or

(3) That is 60 days following the latest allowable date established by the school for completing the program under the schedule required under Sec. 685.302.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.208—Repayment plans.

(a) *General.*

(1) A borrower may repay a Direct Subsidized Loan, a Direct Unsubsidized Loan, a Direct Subsidized Consolidation Loan, or a Direct Unsubsidized Consolidation Loan under the standard repayment plan, the extended repayment plan, the graduated repayment plan, or the income contingent repayment plan.

(2) A borrower may repay a Direct PLUS Loan or a Direct PLUS Consolidation Loan under the standard repayment plan, the extended repayment plan, or the graduated repayment plan.

(3) The Secretary may provide an alternative repayment plan in accordance with paragraph (g) of this section.

(4) All Direct Loans obtained by one borrower must be repaid together under the same repayment plan, except that a borrower of a Direct PLUS Loan or a Direct PLUS Consolidation Loan may repay the Direct PLUS Loan or the Direct PLUS Consolidation Loan separately from other Direct Loans obtained by that borrower.

(b) *Standard repayment plan.*

(1) Under the standard repayment plan, a borrower shall repay a loan in full within ten years from the date the loan entered repayment by making fixed monthly payments.

(2) Periods of authorized deferment or forbearance are not included in the ten-year repayment period.

(3) A borrower's payments under the standard repayment plan are at least $50 per month, except that a borrower's final payment may be less than $50.

(4) The number of payments or the fixed monthly repayment amount may be adjusted to reflect changes in the variable interest rate identified in Sec. 685.202(a).

(c) *Extended repayment plan.*

(1) Under the extended repayment plan, a borrower shall repay a loan in full by making fixed monthly payments within an extended period of time that varies with the total amount of the borrower's loans, as described in paragraph (e) of this section.

(2) Periods of deferment and forbearance are not included in the number of years of repayment.

(3) A borrower makes fixed monthly payments of at least $50, except that a borrower's final payment may be less than $50.

(4) The number of payments or the fixed monthly repayment amount may be adjusted to reflect changes in the variable interest rate identified in Sec. 685.202(a).

(d) *Graduated repayment plan.*

(1) Under the graduated repayment plan, a borrower shall repay a loan in full by making payments at two or more levels within a period of time that varies with the total amount of the borrower's loans, as described in paragraph (e) of this section.

(2) Periods of deferment and forbearance are not included in the number of years of repayment.

(3) The number of payments or the monthly repayment amount may be adjusted to reflect changes in the variable interest rate identified in Sec. 685.202(a).

(4) No scheduled payment under the graduated repayment plan may be less than the amount of interest accrued on the loan between monthly payments, less than 50 percent of the payment amount that would be required under the standard

repayment plan, or more than 150 percent of the payment amount that would be required under the standard repayment plan.

(e) *Repayment period for the extended and graduated plans.* Under the extended and graduated repayment plans, if the total amount of the borrower's Direct Loans is—

(1) Less than $10,000, the borrower shall repay the loans within 12 years of entering repayment;

(2) Greater than or equal to $10,000 but less than $20,000, the borrower shall repay the loans within 15 years of entering repayment;

(3) Greater than or equal to $20,000 but less than $40,000, the borrower shall repay the loans within 20 years of entering repayment;

(4) Greater than or equal to $40,000 but less than $60,000, the borrower shall repay the loans within 25 years of entering repayment; and

(5) Greater than or equal to $60,000, the borrower shall repay the loans within 30 years of entering repayment.

(f) *Income contingent repayment plan.*

(1) Under the income contingent repayment plan, a borrower's monthly repayment amount is generally based on the total amount of the borrower's Direct Loans, family size, and Adjusted Gross Income (AGI) reported by the borrower for the most recent year for which the Secretary has obtained income information. The borrower's AGI includes the income of the borrower's spouse. A borrower shall make payments on a loan until the loan is repaid in full or until the loan has been in repayment through the end of the income contingent repayment period.

(2) The regulations in effect at the time a borrower enters repayment and selects the income contingent repayment plan or changes into the income contingent repayment plan from another plan govern the method for determining the borrowers's monthly repayment amount for all of the borrower's Direct Loans, unless—

(i) The Secretary amends the regulations relating to a borrower's monthly repayment amount under the income contingent repayment plan; and

(ii) The borrower submits a written request that the amended regulations apply to the repayment of the borrower's Direct Loans.

(3) Provisions governing the income contingent repayment plan are set out in Sec. 685.209.

(g) *Alternative repayment.*

(1) The Secretary may provide an alternative repayment plan for a borrower who demonstrates to the Secretary's satisfaction that the terms and conditions of the repayment plans specified in paragraphs (b) through (f) of this section are not adequate to accommodate the borrower's exceptional circumstances.

(2) The Secretary may require a borrower to provide evidence of the borrower's exceptional circumstances before permitting the borrower to repay a loan under an alternative repayment plan.

(3) If the Secretary agrees to permit a borrower to repay a loan under an alternative repayment plan, the Secretary notifies the borrower in writing of the terms of the plan. After the borrower receives notification of the terms of the plan, the borrower may accept the plan or choose another repayment plan.

(4) A borrower shall repay a loan under an alternative repayment plan within 30 years of the date the loan entered repayment, not including periods of deferment and forbearance.

(5) If the amount of a borrower's monthly payment under an alternative repayment plan is less than the accrued interest on the loan, the unpaid interest is capitalized until the outstanding principal amount is 10 percent greater than the original principal amount. After the outstanding principal amount is 10 percent greater than the original principal amount, interest continues to accrue but is not capitalized. For purposes of this paragraph, the original principal amount is the amount owed by the borrower when the borrower enters repayment.

(Authority: 20 U.S.C. 1087a et seq.)

Note: (f)(1) and (2) revised June 19, 1996, effective July 1, 1996. (f)(2) revised May 9, 1997, effective July 1, 1996.

Sec. 685.209—Income contingent repayment plan.

(a) *Repayment amount calculation.*

(1) The amount the borrower would repay is based upon the borrower's Direct Loan debt when the borrower's first loan enters repayment, and this basis for calculation does not change unless the borrower obtains another Direct Loan or the borrower and the borrower's spouse obtain approval to repay their loans jointly under paragraph (b)(2) of this section. If the borrower obtains another Direct Loan, the amount the borrower would repay is based on the combined amounts of the loans when the last loan enters repayment. If the borrower and the borrower's spouse repay the loans jointly, the amount the borrowers would repay is based on both borrowers' Direct Loan debts at the time they enter joint repayment.

(2) The annual amount payable under the income contingent repayment plan by a borrower is the lesser of—

(i) The amount the borrower would repay annually over 12 years using standard amortization multiplied by an income percentage factor that corresponds to the borrower's adjusted gross income (AGI) as shown in the income percentage factor table in Appendix A to this part; or

(ii) 20 percent of discretionary income.

(3) For purposes of this section, discretionary income is defined as a

borrower's AGI minus the amount of the "HHS Poverty Guidelines for all States (except Alaska and Hawaii) and the District of Columbia" as published by the United States Department of Health and Human Services on an annual basis.[1] For residents of Alaska and Hawaii, discretionary income is defined as a borrower's AGI minus the amounts in the "HHS Poverty Guidelines for Alaska" and the "HHS Poverty Guidelines for Hawaii" respectively. If a borrower provides documentation acceptable to the Secretary that the borrower has more than one person in the borrower's family, the Secretary applies the HHS Poverty Guidelines for the borrower's family size.

(4) For exact incomes not shown in the income percentage factor table in Appendix A, an income percentage factor is calculated, based upon the intervals between the incomes and income percentage factors shown on the table.

(5) Each year, the Secretary recalculates the borrower's annual payment amount based on changes in the borrower's AGI, the variable interest rate, the income percentage factors in the table in Appendix A, and updated HHS Poverty Guidelines (if applicable).

(6) If a borrower's monthly payment is calculated to be greater than $0 but less than or equal to $5.00, the amount payable by the borrower shall be $5.00.

(7) For purposes of the annual recalculation described in paragraph (a)(5) of this section, after periods in which a borrower makes payments that are less than interest accrued on the loan, the payment amount is recalculated based upon unpaid accrued interest and the highest outstanding principal loan amount (including amount capitalized) calculated for that borrower while paying under the income contingent repayment plan.

(8) For each calendar year after calendar year 1996, the Secretary publishes in the Federal Register a revised income percentage factor table reflecting changes based on inflation. This revised table is developed by changing each of the dollar amounts contained in the table by a percentage equal to the estimated percentage changes in the Consumer Price Index (as determined by the Secretary) between December 1995 and the December next preceding the beginning of such calendar year.

(9) Examples of the calculation of monthly repayment amounts and tables that show monthly repayment amounts for borrowers at various income and debt levels are included in Appendix A to this part.

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[1] The HHS Poverty Guidelines are available from the Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services (HHS), Room 438F, Humphrey Building, 200 Independence Avenue, S.W., Washington, D.C. 20201.

(b) *Treatment of married borrowers.*

(1) A married borrower who wishes to repay under the income contingent repayment plan and who has filed an income tax return separately from his or her spouse must provide his or her spouse's written consent to the disclosure of certain tax return information under paragraph (c)(5) of this section (unless the borrower is separated from his or her spouse). The AGI for both spouses is used to calculate the monthly repayment amount.

(2) Married borrowers may repay their loans jointly. The outstanding balances on the loans of each borrower are added together to determine the borrowers' payback rate under (a)(1) of this section.

(3) The amount of the payment applied to each borrower's debt is the proportion of the payments that equals the same proportion as that borrower's debt to the total outstanding balance, except that the payment is credited toward outstanding interest on any loan before any payment is credited toward principal.

(c) *Other features of the income contingent repayment plan.*

(1) *Alternative documentation of income.* If a borrower's AGI is not available or if, in the Secretary's opinion, the borrower's reported AGI does not reasonably reflect the borrower's current income, the Secretary may use other documentation of income provided by the borrower to calculate the borrower's monthly repayment amount.

(2) *First and second year borrowers.* The Secretary requires alternative documentation of income from borrowers in their first and second years of repayment, when in the Secretary's opinion, the borrower's reported AGI does not reasonably reflect the borrower's current income.

(3) *Adjustments to repayment obligations.* The Secretary may determine that special circumstances, such as a loss of employment by the borrower or the borrower's spouse, warrant an adjustment to the borrower's repayment obligations.

(4) *Repayment period.*

(i) The maximum repayment period under the income contingent repayment plan is 25 years.

(ii) The repayment period includes periods in which the borrower makes payments under the standard repayment plan and under extended repayment plans in which payments are based on a repayment period that is up to 12 years. The repayment period does not include periods in which the borrower makes payments under the graduated and alternative repayment plans or periods of authorized deferment or forbearance. The repayment period also does not include periods in which the borrower makes payments under an extended repayment plan in which payments

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are based on a repayment period that is longer than 12 years.

(iii) If a borrower repays more than one loan under the income contingent repayment plan, a separate repayment period for each loan begins when that loan enters repayment.

(iv) If a borrower has not repaid a loan in full at the end of the 25-year repayment period under the income contingent repayment plan, the Secretary cancels the unpaid portion of the loan.

(v) At the beginning of the repayment period under the income contingent repayment plan, a borrower shall make monthly payments of the amount of interest that accrues on the borrower's Direct Loans until the Secretary calculates the borrower's monthly repayment amount on the basis of the borrower's income.

(5) *Limitation on capitalization of interest.* If the amount of a borrower's monthly payment is less than the accrued interest, the unpaid interest is capitalized until the outstanding principal amount is ten percent greater than the original principal amount. After the outstanding principal amount is ten percent greater than the original amount, interest continues to accrue but is not capitalized. For purposes of this paragraph, the original amount is the amount owed by the borrower when the borrower enters repayment.

(6) *Notification of terms and conditions.* When a borrower elects or is required by the Secretary to repay a loan under the income contingent repayment plan, the Secretary notifies the borrower of the terms and conditions of the plan, including—

(i) That the Internal Revenue Service will disclose certain tax return information to the Secretary or the Secretary's agents; and

(ii) That if the borrower believes that special circumstances warrant an adjustment to the borrower's repayment obligations, as described in Sec. 685.209(c)(3), the borrower may contact the Secretary and obtain the Secretary's determination as to whether an adjustment is appropriate.

(7) *Consent to disclosure of tax return information.*

(i) A borrower shall provide written consent to the disclosure of certain tax return information by the Internal Revenue Service (IRS) to agents of the Secretary for purposes of calculating a monthly repayment amount and servicing and collecting a loan under the income contingent repayment plan. The borrower shall provide consent by signing a consent form, developed consistent with 26 CFR 301.6103(c)-1 and provided to the borrower by the Secretary, and shall return the signed form to the Secretary.

(ii) The borrower shall consent to disclosure of the borrower's taxpayer identity information as defined in 26 U.S.C. 6103(b)(6), tax filing status, and AGI.

(iii) The borrower shall provide consent for a period of five years from the date the borrower signs the consent form. The Secretary provides the borrower a new consent form before that period expires. The IRS does not disclose tax return information after the IRS has processed a borrower's withdrawal of consent.

(iv) The Secretary designates the standard repayment plan for a borrower who selects the income contingent repayment plan but—

(A) Fails to provide the required written consent;

(B) Fails to renew written consent upon the expiration of the five-year period for consent; or

(C) Withdraws consent and does not select another repayment plan.

(v) If a borrower defaults and the Secretary designates the income contingent repayment plan for the borrower but the borrower fails to provide the required written consent, the Secretary mails a notice to the borrower establishing a repayment schedule for the borrower.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995. (a) and (b) amended; (c) removed; (d) redesignated as (c); new (c)(2) through (5) redesignated as (c)(4) through (7), respectively; (c)(2) and (c)(3) added December 1, 1995, effective July 1, 1996. Note: (a)(6) through (8) redesignated (a)(7) through (9) and new (a)(6) added; (c)(6)(ii) revised June 19. 1996, effective July 1, 1996.

Sec. 685.210—Choice of repayment plan.

(a) *Initial selection of a repayment plan.*

(1) Before a Direct Loan enters into repayment, the Secretary provides the borrower a description of the available repayment plans and requests the borrower to select one. A borrower may select a repayment plan before the loan enters repayment by notifying the Secretary of the borrower's selection in writing.

(2) If a borrower does not select a repayment plan, the Secretary designates the standard repayment plan described in Sec. 685.208(b) for the borrower.

(b) *Changing repayment plans.*

(1) A borrower may change repayment plans at any time after the loan has entered repayment by notifying the Secretary. However, a borrower who is repaying a defaulted loan under the income contingent repayment plan

under Sec. 685.211(c)(3)(ii) may not change to another repayment plan unless—

(i) The borrower was required to and did make a payment under the income contingent repayment plan in each of the prior three (3) months; or

(ii) The borrower was not required to make payments but made three reasonable and affordable payments in each of the prior three months; and

(iii) The borrower makes and the Secretary approves a request to change plans.

(2) (i) A borrower may not change to a repayment plan that has a maximum repayment period of less than the number of years the loan has already been in repayment, except that a borrower may change to the income contingent repayment plan at any time.

(ii) If a borrower changes plans, the repayment period is the period provided under the borrower's new repayment plan, calculated from the date the loan initially entered repayment. However, if a borrower changes to the income contingent repayment plan, the repayment period is calculated as described in Sec. 685.209(d)(2).

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.211—Miscellaneous repayment provisions.

(a) *Payment application and prepayment.*

(1) The Secretary applies any payment first to any accrued charges and collection costs, then to any outstanding interest, and then to outstanding principal.

(2) A borrower may prepay all or part of a loan at any time without penalty. If a borrower pays any amount in excess of the amount due, the excess amount is a prepayment.

(3) If a prepayment equals or exceeds the monthly repayment amount under the borrower's repayment plan, the Secretary—

(i) Applies the prepaid amount according to paragraph (a)(1) of this section;

(ii) Advances the due date of the next payment unless the borrower requests otherwise; and

(iii) Notifies the borrower of any revised due date for the next payment.

(4) If a prepayment is less than the monthly repayment amount, the Secretary applies the prepayment according to paragraph (a)(1) of this section.

(b) *Refunds from schools.* The Secretary applies any refund due to a borrower that the Secretary receives from a school under Sec. 668.22 against the borrower's outstanding principal and notifies the borrower of the refund.

(c) *Default.*

(1) *Acceleration.* If a borrower defaults on a Direct Loan, the entire unpaid

balance and accrued interest are immediately due and payable.

(2) *Collection charges.* If a borrower defaults on a Direct Loan, the Secretary assesses collection charges in accordance with Sec. 685.202(e).

(3) *Collection of a defaulted loan.*

(i) The Secretary may take any action authorized by law to collect a defaulted Direct Loan including, but not limited to, filing a lawsuit against the borrower, reporting the default to national credit bureaus, requesting the Internal Revenue Service to offset the borrower's Federal income tax refund, and garnishing the borrower's wages.

(ii) If a borrower defaults on a Direct Subsidized Loan, a Direct Unsubsidized Loan, a Direct Unsubsidized Consolidation Loan or a Direct Subsidized Consolidation Loan, the Secretary may designate the income contingent repayment plan for the borrower.

(d) *Ineligible borrowers.*

(1) The Secretary determines that a borrower is ineligible if, at the time the loan was made and without the school's or the Secretary's knowledge, the borrower (or the student on whose behalf a parent borrowed) provided false or erroneous information or took actions that caused the borrower or student—

(i) To receive a loan for which the borrower is wholly or partially ineligible;

(ii) To receive interest benefits for which the borrower was ineligible; or

(iii) To receive loan proceeds for a period of enrollment for which the borrower was not eligible.

(2) If the Secretary makes the determination described in paragraph (d)(1) of this section, the Secretary sends an ineligible borrower a demand letter that requires the borrower to repay some or all of a loan, as appropriate. The demand letter requires that within 30 days from the date the letter is mailed, the borrower repay any principal amount for which the borrower is ineligible and any accrued interest, including interest subsidized by the Secretary, through the previous quarter.

(3) If a borrower fails to comply with the demand letter described in paragraph (d)(2) of this section, the borrower is in default on the entire loan.

(4) A borrower may not consolidate a loan under Sec. 685.215 for which the borrower is wholly or partially ineligible.

(e) *Rehabilitation of defaulted loans.* A defaulted Direct Loan is rehabilitated if the borrower makes 12 consecutive on-time, reasonable, and affordable monthly payments. The amount of such a payment is determined on the basis of the borrower's total financial circumstances. If a defaulted loan is rehabilitated, the Secretary instructs any credit bureau to which the default was reported to remove the default from the borrower's credit history.

(Authority: 20 U.S.C. 1087a et seq.)

As of Date: December 31, 1998.
Citation: (R)685.212.
Federal Register: Date: 6/26/98, Final

Sec. 685.212—Discharge of a loan obligation.

(a) *Death.* If the Secretary receives acceptable documentation that a borrower (or the student on whose behalf a parent borrowed) has died, the Secretary discharges the obligation of the borrower and any endorser to make any further payments on the loan.

(b) *Total and permanent disability.*

(1) If the Secretary receives acceptable documentation that a borrower has become totally and permanently disabled, the Secretary discharges the obligation of the borrower and any endorser to make any further payments on the loan.

(2) Except as provided in paragraph (b)(3)(i) of this section, a borrower is not considered totally and permanently disabled based on a condition that existed at the time the borrower applied for the loan unless the borrower's condition substantially deteriorated after the loan was made so as to render the borrower totally and permanently disabled.

(3) (i) For a Direct Consolidation Loan, a borrower is considered totally and permanently disabled if he or she would be considered totally and permanently disabled under paragraphs (b) (1) and (2) of this section for all of the loans that were included in the Direct Consolidation Loan if those loans had not been consolidated.

(ii) For the purposes of discharging a loan under paragraph (b)(3)(i) of this section, provisions in paragraphs (b) (1) and (2) of this section apply to each loan included in the Direct Consolidation Loan, even if the loan is not a Direct Loan Program loan.

(iii) If requested, a borrower seeking to discharge a loan obligation under paragraph (b)(3)(i) of this section must provide the Secretary with the disbursement dates of the underlying loans.

(c) *Bankruptcy.* If a borrower's obligation to repay a loan is discharged in bankruptcy, the Secretary does not require the borrower to make any further payments on the loan.

(d) *Closed schools.* If a borrower meets the requirements in Sec. 685.213, the Secretary discharges the obligation of the borrower and any endorser to make any further payments on the loan.

(e) *False certification and unauthorized disbursement.* If a borrower meets the requirements in Sec. 685.214, the Secretary discharges the obligation of the borrower and any endorser to make any further payments on the loan.

(f) *Payments received after eligibility for discharge.* Upon receipt of acceptable documentation and approval of the discharge request, the Secretary returns to the sender, or, for a discharge based on death, the borrower's estate, those payments received after the date that the eligibility requirements for discharge were met but prior to the date the discharge was approved. The Secretary also returns any payments received after the date the discharge was approved.

(g) *Loan forgiveness demonstration program.* If funds are appropriated for the loan forgiveness demonstration program authorized by section 428J of the Act, the Secretary follows the procedures and applies the standards in 34 CFR 682.215 for borrowers under the Direct Loan Program.

(Authority: 20 U.S.C. 1087a et seq.)

Notes: (f) revised June 12, 1996, effective July 12, 1996. (c) revised June 3, 1997, effective June 3, 1997. (b) revised November 28, 1997, effective July 1, 1998.

Sec. 685.213—Closed school discharge.

(a) *General.*

(1) The Secretary discharges the borrower's (and any endorser's) obligation to repay a Direct Loan in accordance with the provisions of this section if the borrower (or the student on whose behalf a parent borrowed) did not complete the program of study for which the loan was made because the school at which the borrower (or student) was enrolled closed, as described in paragraph (c) of this section.

(2) For purposes of this section—

(i) A school's closure date is the date that the school ceases to provide educational instruction in all programs, as determined by the Secretary; and

(ii) "School" means a school's main campus or any location or branch of the main campus.

(b) *Relief pursuant to discharge.*

(1) Discharge under this section relieves the borrower of any past or present obligation to repay the loan and any accrued charges or collection costs with respect to the loan.

(2) The discharge of a loan under this section qualifies the borrower for reimbursement of amounts paid voluntarily or through enforced collection on the loan.

(3) The Secretary does not regard a borrower who has defaulted on a loan discharged under this section as in default on the loan after discharge, and such a borrower is eligible to receive assistance under programs authorized by title IV of the Act.

(4) The Secretary reports the discharge of a loan under this section to all credit reporting agencies to which the Secretary previously reported the status of the loan.

(c) *Borrower qualification for discharge.* In order to qualify for discharge of a loan under this section, a borrower shall submit to the Secretary a written request and sworn statement, and the factual assertions in the statement must be true. The statement need not be notarized but must be made by the borrower under penalty of perjury. In the statement, the borrower shall—

(1) State that the borrower (or the student on whose behalf a parent borrowed)—

(i) Received the proceeds of a loan to attend a school;

(ii) Did not complete the program of study at that school because the school closed while the student was enrolled, or the student withdrew from the school not more than 90 days before the school closed (or longer in exceptional circumstances); and

(iii) Did not complete the program of study through a teach-out at another school or by transferring academic credits or hours earned at the closed school to another school;

(2) State whether the borrower (or student) has made a claim with respect to the school's closing with any third party, such as the holder of a performance bond or a tuition recovery program, and, if so, the amount of any payment received by the borrower (or student) or credited to the borrower's loan obligation; and

(3) State that the borrower (or student)—

(i) Agrees to provide to the Secretary upon request other documentation reasonably available to the borrower that demonstrates that the borrower meets the qualifications for discharge under this section; and

(ii) Agrees to cooperate with the Secretary in enforcement actions in accordance with paragraph (d) of this section and to transfer any right to recovery against a third party to the Secretary in accordance with paragraph (e) of this section.

(d) *Cooperation by borrower in enforcement actions.*

(1) In order to obtain a discharge under this section, a borrower shall cooperate with the Secretary in any judicial or administrative proceeding brought by the Secretary to recover amounts discharged or to take other enforcement action with respect to the conduct on which the discharge was based. At the request of the Secretary and upon the Secretary's tendering to the borrower the fees and costs that are customarily provided in litigation to reimburse witnesses, the borrower shall—

(i) Provide testimony regarding any representation made by the borrower to support a request for discharge;

(ii) Produce any documents reasonably available to the borrower with respect to those representations; and

(iii) If required by the Secretary, provide a sworn statement regarding those documents and representations.

(2) The Secretary denies the request for a discharge or revokes the discharge of a borrower who—

(i) Fails to provide the testimony, documents, or a sworn statement required under paragraph (d)(1) of this section; or

(ii) Provides testimony, documents, or a sworn statement that does not support the material representations made by the borrower to obtain the discharge.

(e) *Transfer to the Secretary of borrower's right of recovery against third parties.*

(1) Upon discharge under this section, the borrower is deemed to have assigned to and relinquished in favor of the Secretary any right to a loan refund (up to the amount discharged) that the borrower (or student) may have by contract or applicable law with respect to the loan or the enrollment agreement for the program for which the loan was received, against the school, its principals, its affiliates and their successors, its sureties, and any private fund, including the portion of a public fund that represents funds received from a private party.

(2) The provisions of this section apply notwithstanding any provision of State law that would otherwise restrict transfer of those rights by the borrower (or student), limit or prevent a transferee from exercising those rights, or establish procedures or a scheme of distribution that would prejudice the Secretary's ability to recover on those rights.

(3) Nothing in this section limits or forecloses the borrower's (or student's) right to pursue legal and equitable relief regarding disputes arising from matters unrelated to the discharged Direct Loan.

(f) *Discharge procedures.*

(1) After confirming the date of a school's closure, the Secretary identifies any Direct Loan borrower (or student on whose behalf a parent borrowed) who appears to have been enrolled at the school on the school closure date or to have withdrawn not more than 90 days prior to the closure date.

(2) If the borrower's current address is known, the Secretary mails the borrower a discharge application and an explanation of the qualifications and procedures for obtaining a discharge. The Secretary also promptly suspends any efforts to collect from the borrower on any affected loan. The Secretary may continue to receive borrower payments.

(3) If the borrower's current address is unknown, the Secretary attempts to locate the borrower and determines the borrower's potential eligibility for a discharge under this section by consulting with representatives of the closed school, the school's licensing agency, the school's accrediting agency, and other appropriate parties. If the Secretary learns the new address of a borrower, the Secretary mails to the borrower a discharge application and explanation and suspends collection, as described in paragraph (f)(2) of this section.

(4) If a borrower fails to submit the written request and sworn statement described in paragraph (c) of this section within 60 days of the Secretary's mailing the discharge application, the Secretary resumes collection and grants forbearance of

principal and interest for the period in which collection activity was suspended. The Secretary may capitalize any interest accrued and not paid during that period.

(5) If the Secretary determines that a borrower who requests a discharge meets the qualifications for a discharge, the Secretary notifies the borrower in writing of that determination.

(6) If the Secretary determines that a borrower who requests a discharge does not meet the qualifications for a discharge, the Secretary notifies that borrower in writing of that determination and the reasons for the determination.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672) Note: OMB control number added June 28, 1995, effective July 1, 1995

Sec. 685.214—Discharge for false certification of student eligibility or unauthorized payment.

(a) *Basis for discharge.*

(1) *False certification.* The Secretary discharges a borrower's (and any endorser's) obligation to repay a Direct Loan in accordance with the provisions of this section if a school falsely certifies the eligibility of the borrower (or the student on whose behalf a parent borrowed) to receive the loan. The Secretary considers a student's eligibility to borrow to have been falsely certified by the school if the school—

(i) Certified the student's eligibility for a Direct Loan on the basis of ability to benefit from its training and the student did not meet the eligibility requirements described in 34 CFR part 668 and section 484(d) of the Act, as applicable;

(ii) Signed the borrower's name on the loan application or promissory note without the borrower's authorization; or

(iii) Certified the eligibility of a student who, because of a physical or mental condition, age, criminal record, or other reason accepted by the Secretary, would not meet the requirements for employment (in the student's State of residence when the loan was originated) in the occupation for which the training program supported by the loan was intended.

(2) *Unauthorized payment.* The Secretary discharges a borrower's (and any endorser's) obligation to repay a Direct Loan if the school, without the borrower's authorization, endorsed the borrower's loan check or signed the borrower's authorization for electronic funds transfer, unless the proceeds of the loan were delivered to the student or applied to charges owed by the student to the school.

(b) *Relief pursuant to discharge.*

(1) Discharge for false certification under paragraph (a)(1) of this section relieves the borrower of any past or present obligation to repay the loan

and any accrued charges and collection costs with respect to the loan.

(2) Discharge for unauthorized payment under paragraph (a)(2) of this section relieves the borrower of the obligation to repay the amount of the payment discharged.

(3) The discharge under this section qualifies the borrower for reimbursement of amounts paid voluntarily or through enforced collection on the discharged loan or payment.

(4) The Secretary does not regard a borrower who has defaulted on a loan discharged under this section as in default on the loan after discharge, and such a borrower is eligible to receive assistance under programs authorized by title IV of the Act.

(5) The Secretary reports the discharge under this section to all credit reporting agencies to which the Secretary previously reported the status of the loan.

(c) *Borrower qualification for discharge.* In order to qualify for discharge under this section, the borrower shall submit to the Secretary a written request and a sworn statement, and the factual assertions in the statement must be true. The statement need not be notarized but must be made by the borrower under penalty of perjury. In the statement, the borrower shall meet the requirements in paragraphs (c) (1) through (5) of this section

(1) *Ability to benefit.* In the case of a borrower requesting a discharge based on the school's defective testing of the student's ability to benefit, the borrower shall state that the borrower (or the student on whose behalf a parent borrowed)—

(i) Received a disbursement of a loan to attend a school;

(ii) Received a Direct Loan at that school on the basis of an ability to benefit from the school's training and did not meet the eligibility requirements described in 34 CFR Part 668 and section 484(d) of the Act, as applicable; and

(iii) Either—

(A) Withdrew from the school and did not find employment in the occupation for which the training program was intended; or

(B) Completed the training program for which the loan was made, made reasonable attempts to obtain employment in the occupation for which the program was intended, and was not able to find employment in that occupation or obtained employment in that occupation only after receiving additional training that was not provided by the school that originated the loan.

(2) *Unauthorized loan.* In the case of a borrower requesting a discharge because the school signed the borrower's name on the loan application or promissory note

without the borrower's authorization, the borrower shall—

(i) State that he or she did not sign the document in question or authorize the school to do so; and

(ii) Provide five different specimens of his or her signature, two of which must be within one year before or after the date of the contested signature.

(3) *Unauthorized payment.* In the case of a borrower requesting a discharge because the school, without the borrower's authorization, endorsed the borrower's loan check or signed the borrower's authorization for electronic funds transfer, the borrower shall—

(i) State that he or she did not endorse the loan check or sign the authorization for electronic funds transfer or authorize the school to do so;

(ii) Provide five different specimens of his or her signature, two of which must be within one year before or after the date of the contested signature;

(iii) State that the proceeds of the contested disbursement were not delivered to the student or applied to charges owed by the student to the school.

(4) *Claim to third party.* The borrower shall state whether the borrower (or student) has made a claim with respect to the school's false certification or unauthorized payment with any third party, such as the holder of a performance bond or a tuition recovery program, and, if so, the amount of any payment received by the borrower (or student) or credited to the borrower's loan obligation.

(5) *Cooperation with Secretary.* The borrower shall state that the borrower (or student)—

(i) Agrees to provide to the Secretary upon request other documentation reasonably available to the borrower that demonstrates that the borrower meets the qualifications for discharge under this section; and

(ii) Agrees to cooperate with the Secretary in enforcement actions as described in Sec. 685.213(d) and to transfer any right to recovery against a third party to the Secretary as described in Sec. 685.213(e).

(d) *Discharge procedures.*

(1) If the Secretary determines that a borrower's Direct Loan may be eligible for a discharge under this section, the Secretary mails the borrower a disclosure application and an explanation of the qualifications and procedures for obtaining a discharge. The Secretary also promptly suspends any efforts to collect from the borrower on any affected loan. The Secretary may continue to receive borrower payments.

(2) If the borrower fails to submit the written request and sworn statement described in paragraph (c) of this

section within 60 days of the Secretary's mailing the disclosure application, the Secretary resumes collection and grants forbearance of principal and interest for the period in which collection activity was suspended. The Secretary may capitalize any interest accrued and not paid during that period.

(3) If the borrower submits the written request and sworn statement described in paragraph (c) of the section, the Secretary determines whether to grant a request for discharge under this section by reviewing the request and sworn statement in light of information available from the Secretary's records and from other sources, including guaranty agencies, State authorities, and cognizant accrediting associations.

(4) If the Secretary determines that the borrower meets the applicable requirements for a discharge under paragraph (c) of this section, the Secretary notifies the borrower in writing of that determination.

(5) If the Secretary determines that the borrower does not qualify for a discharge, the Secretary notifies the borrower in writing of that determination and the reasons for the determination.

(Authority: 20 U.S.C. 1087a et seq.)

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Sec. 685.215—Consolidation

(a) *Direct Consolidation Loans.* A borrower may consolidate one or more education loans made under certain Federal programs into one or more Direct Consolidation Loans. Loans consolidated into a Direct Consolidation Loan are discharged when the Direct Consolidation Loan is originated.

(b) *Loans eligible for consolidation.* The following loans may be consolidated into a Direct Consolidation Loan:

(1) Federal Stafford Loans.

(2) Guaranteed Student Loans.

(3) Federal Insured Student Loans (FISL).

(4) Direct Subsidized Loans.

(5) Direct Subsidized Consolidation Loans.

(6) Federal Perkins Loans.

(7) National Direct Student Loans (NDSL).

(8) National Defense Student Loans (NDSL).

(9) Federal PLUS Loans.

(10) Parent Loans for Undergraduate Students (PLUS).

(11) Direct PLUS Loans.

(12) Direct PLUS Consolidation Loans.

(13) Federal Unsubsidized Stafford Loans.

(14) Federal Supplemental Loans for Students (SLS).

(15) Federal Consolidation Loans.

(16) Direct Unsubsidized Loans.

(17) Direct Unsubsidized Consolidation Loans.

(18) Auxiliary Loans to Assist Students (ALAS).

(19) Health Professions Student Loans (HPSL) and Loans for Disadvantaged Students (LDS) made under subpart II of part A of title VII of the Public Health Service Act.

(20) Health Education Assistance Loans (HEAL).

(21) Nursing loans made under subpart II of part B of title VIII of the Public Health Service Act.

(c) *Types of Direct Consolidation Loans.*

(1) The loans identified in paragraphs (b)(1) through (8) of this section may be consolidated into a Direct Subsidized Consolidation Loan.

(2) The loans identified in paragraphs (b)(9) through (12) of this section may be consolidated into a Direct PLUS Consolidation Loan.

(3) The loans identified in paragraphs (b)(13) through (21) of this section may be consolidated into a Direct Unsubsidized Consolidation Loan. In addition, Federal Consolidation Loans under (b)(15) of this section may be consolidated into a Direct Subsidized Consolidation Loan, if they are eligible for interest benefits during a deferment period under Section 428C(b)(4)(C) of the Act.

(d) *Eligibility for a Direct Consolidation Loan.*

(1) A borrower may obtain a Direct Consolidation Loan if, at the time the borrower applies for such a loan, the borrower meets the following requirements:

(i) The borrower either—

(A) Has an outstanding balance on a Direct Loan; or

(B) Has an outstanding balance on an FFEL loan and asserts either—

(1) That the borrower is unable to obtain an FFEL consolidation loan; or

(2) That the borrower is unable to obtain an FFEL consolidation loan with income-sensitive repayment terms acceptable to the borrower and is eligible for the income contingent repayment plan under the Direct Loan Program.

(ii) On the loans being consolidated, the borrower is—

(A) In an in-school period and seeks to consolidate loans made under both the FFEL Program and the Direct Loan Program;

(B) In an in-school period at a school participating in the Direct Loan Program and seeks to consolidate loans made under the FFEL Program;

(C) In a six-month grace period;

(D) In a repayment period but not in default;

(E) In default but has made satisfactory repayment arrangements, as defined in paragraph (2) of that term under Sec. 685.102(b), on the defaulted loan; or

(F) In default but agrees to repay the consolidation loan under the income contingent repayment plan described in Sec. 685.208(f) and signs the consent form described in Sec. 685.209(d)(5).

(iii) The borrower certifies that no other application to consolidate any of the borrower's loans listed in paragraph (b) of this section is pending with any other lender.

(iv) The borrower agrees to notify the Secretary of any change in address.

(v) In the case of a Direct PLUS Consolidation Loan—

(A) The borrower may not have an adverse credit history as defined in Sec. 685.200(b)(7)(ii); or

(B) If the borrower has such an adverse credit history, the borrower shall obtain an endorser for the consolidation loan who does not have an adverse credit history or provide documentation satisfactory to the Secretary that extenuating circumstances relating to the borrower's credit history exist.

(vi) In the case of a defaulted Direct Consolidation Loan, the borrower obtains the approval of the Secretary.

(vii) In the case of a loan on which the holder has obtained a judgment, the borrower obtains the approval of the Secretary.

(2) Two married borrowers may consolidate their loans together if they meet the following requirements:

(i) At least one spouse meets the requirements of paragraphs (d)(1)(i) and (d)(1)(v) of this section.

(ii) Both spouses meet the requirements of paragraphs (d)(1)(ii) through (d)(1)(iv) of this section.

(iii) Each spouse agrees to be held jointly and severally liable for the repayment of the total amount of the consolidation loan and to repay the loan regardless of any change in marital status.

(e) *Application for a Direct Consolidation Loan.* To obtain a Direct Consolidation Loan, a borrower or borrowers shall submit a completed application to the Secretary. A single application may be used for one or more consolidation loans. A borrower may add eligible loans to a Direct Consolidation Loan by submitting a request to the Secretary within 180 days after the date on which the Direct Consolidation Loan is originated.

(f) *Origination of a consolidation loan.*

(1)(i) The holder of a loan that a borrower wishes to consolidate into a Direct Loan shall complete and return the Secretary's request for certification of the amount owed within 10 business days of receipt or, if it is unable to provide the certification, provide to the Secretary a written explanation of the reasons for its inability to provide the certification.

(ii) If the Secretary approves an application for a consolidation loan, the Secretary pays to each holder of a loan selected for consolidation the amount necessary to discharge the loan.

(iii) For a Direct Loan or FFEL Program loan that is in default, the Secretary limits collection costs that may be charged to the borrower to no more than those authorized under the FFEL Program and may impose reasonable limits on collection costs paid to the holder.

(2) Upon receipt of the proceeds of a Direct Consolidation Loan, the holder of a consolidated loan shall promptly apply the proceeds to fully discharge the borrower's obligation on the consolidated loan. The holder of a consolidated loan shall notify the borrower that the loan has been paid in full.

(3) The principal balance of a Direct Consolidation Loan is equal to the sum of the amounts paid to the holders of the consolidated loans.

(4) If the amount paid by the Secretary to the holder of a consolidated loan exceeds the amount needed to discharge that loan, the holder of the consolidated loan shall promptly refund the excess amount to the Secretary to be credited against the outstanding balance of the Direct Consolidation Loan.

(5) If the amount paid by the Secretary to the holder of the consolidated loan is insufficient to discharge that loan, the holder shall notify the Secretary in writing of the remaining amount due on the loan. The Secretary promptly pays the remaining amount due.

(g) *Interest rate.* The interest rate on a Direct Subsidized Consolidation Loan or a Direct Unsubsidized Consolidation Loan is the rate established for Direct Subsidized Loans and Direct Unsubsidized Loans under Sec. 685.202(a)(1). The interest rate on a Direct PLUS Consolidation Loan is the rate established for Direct PLUS Loans under Sec. 685.202(a)(2).

(h) *Repayment plans.* A borrower may repay a Direct Consolidation Loan under any of the repayment plans described in Sec. 685.208, except that—

(1) A borrower may not repay a Direct PLUS Consolidation Loan under the income contingent repayment plan; and

(2) A borrower who became eligible to consolidate a defaulted loan under paragraph (d)(1)(ii)(E) of this section shall repay the consolidation loan under the income contingent repayment plan unless—

(i) The borrower was required to and did make a payment under the income contingent repayment plan in each of the prior three (3) months; or

(ii) The borrower was not required to make payments but made three reasonable and affordable payments in each of the prior three (3) months; and

(iii) The borrower makes and the Secretary approves a request to change plans.

(i) *Repayment period.*

(1) Except as noted in paragraph (i)(4) of this section, the repayment period for a Direct Consolidation Loan begins on the day the loan is disbursed.

(2) Under the extended or graduated repayment plan, the Secretary determines the repayment period under Sec. 685.208(e) on the basis of the outstanding balances on all of the borrower's loans that are eligible for consolidation and the balances on other education loans except as provided in paragraph (i)(3) of this section.

(3)(i) The total amount of outstanding balances on the other education loans used to determine the repayment period under the graduated or extended repayment plan may not exceed the amount of the Direct Consolidation Loan.

(ii) The borrower may not be in default on the other education loan unless the borrower has made satisfactory repayment arrangements with the holder of the loan.

(iii) The lender of the other educational loan may not be an individual.

(4) A Direct Consolidation Loan receives a grace period if it includes a Direct Loan or FFEL Program loan for which the borrower is in an in-school period at the time of consolidation. The repayment period begins the day after the grace period ends.

(j) *Repayment schedule.*

(1) The Secretary provides a borrower of a Direct Consolidation Loan a repayment schedule before the borrower's first payment is due. The repayment schedule identifies the borrower's monthly repayment amount under the repayment plan selected.

(2) If a borrower adds an eligible loan to the consolidation loan under paragraph (e) of this section, the

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Secretary makes appropriate adjustments to the borrower's monthly repayment amount and repayment period.

(k) *Refunds received from schools.* If a lender receives a refund from a school on a loan that has been consolidated into a Direct Consolidation Loan, the lender shall transmit the refund and an explanation of the source of the refund to the Secretary within 30 days of receipt.

(l) *Special provisions for joint consolidation loans.* The provisions of paragraphs (l)(1) through (3) of this section apply to a Direct Consolidation Loan obtained by two married borrowers.

(1) *Deferment.* To obtain a deferment on a joint Direct Consolidation Loan under Sec. 685.204, both borrowers shall meet the requirements of that section.

(2) *Forbearance.* To obtain forbearance on a joint Direct Consolidation Loan under Sec. 685.205, both borrowers shall meet the requirements of that section.

(3) *Discharge.*

(i) To obtain a discharge of a joint Direct Consolidation Loan under Sec. 685.212, each borrower shall meet the requirements for one of the types of discharge described in that section.

(ii) If a borrower meets the requirements for discharge under Sec. 685.212(d) or (e) on a loan that was consolidated into a joint Direct Consolidation Loan and the borrower's spouse does not meet the requirements for any type of discharge described in Sec. 685.212, the Secretary discharges a portion of the consolidation loan equal to the amount of the loan that would have been eligible for discharge under the provisions of Sec. 685.212(d) or (e), as applicable.

(Authority: 20 U.S.C. 1078-8, 1087a et seq.)

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(b)(19), (b)(21), (c)(3), (d) (1)(ii)(E), and (f)(1)(iii) revised June 12, 1996, effective July 12, 1996.

Subpart C: Requirements, Standards, and Payments for the Direct Loan Program Schools

Sec. 685.300—Agreements between an eligible school and the Secretary for participation in the Direct Loan Program.

(a) *General.*

(1) Participation of a school in the Direct Loan Program means that eligible students at the school may receive Direct Loans. To participate in the Direct Loan Program, a school shall—

(i) Demonstrate to the satisfaction of the Secretary that the school meets the requirements for eligibility under the Act and applicable regulations; and

(ii) Enter into a written program participation agreement with the Secretary.

(2) The chief executive officer of the school shall sign the program participation agreement on behalf of the school.

(b) *Program participation agreement.* In the program participation agreement, the school shall promise to comply with the Act and applicable regulations and shall agree to—

(1) Identify eligible students who seek student financial assistance at the institution in accordance with section 484 of the Act;

(2) Estimate the need of each of these students as required by part F of the Act for an academic year. For purposes of estimating need, a Direct Unsubsidized Loan, a Direct PLUS Loan, or any loan obtained under any State-sponsored or private loan program may be used to offset the expected family contribution of the student for that year;

(3) Certify that the amount of the loan for any student under part D of the Act is not in excess of the annual limit applicable for that loan program and that the amount of the loan, in combination with previous loans received by the borrower, is not in excess of the aggregate limit for that loan program;

(4) Set forth a schedule for disbursement of the proceeds of the loan in installments, consistent with the requirements of section 428G of the Act;

(5) Provide timely and accurate information to the Secretary for the servicing and collecting of loans—

(i) Concerning the status of student borrowers (and students on whose behalf parents borrow) while these students are in attendance at the school;

(ii) Upon request by the Secretary, concerning any new information of which the school becomes aware for these students (or their parents) after the student leaves the school; and

(iii) Concerning student eligibility and need, for the alternative origination of loans to eligible students and parents in accordance with part D of the Act;

(6) Provide assurances that the school will comply with requirements established by the Secretary relating to student loan information with respect to loans made under the Direct Loan Program;

(7) Provide that the school will accept responsibility and financial liability stemming from its failure to perform its functions pursuant to the agreement;

(8) Provide that eligible students at the school and their parents may participate in the programs under part B of the Act at the discretion of the Secretary for the period during which the school participates in the Direct Loan Program under part D of the

Act, except that a student may not receive loans under both part D of the Act and part B of the Act for the same period of enrollment and a parent (borrowing for the same student) may not receive loans under both part D of the Act and part B of the Act for the same period of enrollment;

(9) Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with the school, to ensure that the school is complying with program requirements and meeting program objectives;

(10) Provide that the school will not charge any fees of any kind, however described, to student or parent borrowers for origination activities or the provision of any information necessary for a student or parent to receive a loan under part D of the Act or any benefits associated with such a loan; and

(11) Comply with other provisions that the Secretary determines are necessary to protect the interests of the United States and to promote the purposes of part D of the Act.

(c) *Origination.*

(1) If a school or consortium originates loans in the Direct Loan Program, it shall enter into a supplemental agreement that—

(i) Provides that the school or consortium will originate loans to eligible students and parents in accordance with part D of the Act; and

(ii) Provides that the note or evidence of obligation on the loan is the property of the Secretary.

(2) The chief executive officer of the school shall sign the supplemental agreement on behalf of the school.

(Authority: 20 U.S.C. 1087a et seq., 1094)

Sec. 685.301—Origination of a loan by a Direct Loan Program school.

(a) *Determining eligibility and loan amount.*

(1) A school participating in the Direct Loan Program shall ensure that any information it provides to the Secretary in connection with loan origination is complete and accurate. A school shall originate a Direct Loan while the student meets the borrower eligibility requirements of Sec. 685.200. Except as provided in 34 CFR Part 668, subpart E, a school may rely in good faith upon statements made in the application by the student.

(2) A school shall provide to the Secretary borrower information that includes but is not limited to—

(i) The borrower's eligibility for a loan, as determined in accordance with Sec. 685.200 and Sec. 685.203;

(ii) The student's loan amount; and

(iii) The anticipated and actual disbursement date or dates and disbursement amounts of the loan proceeds.

(3) A school may not originate a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan, or a combination of loans, for an amount that—

(i) The school has reason to know would result in the borrower exceeding the annual or maximum loan amounts in Sec. 685.203; or

(ii) Exceeds the student's estimated cost of attendance less—

(A) The student's estimated financial assistance for that period; and

(B) In the case of a Direct Subsidized Loan, the borrower's expected family contribution for that period.

(4) (i) A school determines a Direct Subsidized or Direct Unsubsidized Loan amount in accordance with Sec. 685.203 and the definitions in 34 CFR 668.2 for the proration of loan amounts required for undergraduate students.

(ii) When prorating a loan amount for a student enrolled in a program of study with less than a full academic year remaining, the school need not recalculate the amount of the loan if the number of hours for which an eligible student is enrolled changes after the school originates the loan.

(5) The date of loan origination is the date a school creates the electronic loan origination record.

(6) If a student has received a determination of need for a Direct Subsidized Loan that is $200 or less, a school may choose not to originate a Direct Subsidized Loan for that student and to include the amount as part of a Direct Unsubsidized Loan.

(7) A school may refuse to originate a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan or may reduce the borrower's determination of need for the loan if the reason for that action is documented and provided to the student in writing, and if—

(i) The determination is made on a case-by-case basis;

(ii) The documentation supporting the determination is retained in the student's file; and

(iii) The school does not engage in any pattern or practice that results in a denial of a borrower's access to Direct Loans because of the borrower's race, gender, color, religion, national origin, age, disability status, or income.

(8) A school may not assess a fee for the completion or certification of any Direct Loan Program forms or information or for the origination of a Direct Loan.

(b) *Determining disbursement dates and amounts.*

(1) Before disbursing a loan, a school that originates loans shall determine that all information required by the loan application and promissory note has been provided by the borrower and, if applicable, the student.

(2) Unless paragraph (b)(5), (6), or (7) of this section applies, an institution shall disburse the loan proceeds on a payment period basis in accordance with 34 CFR 668.164(b).

(3) Unless paragraph (b)(4), (5), or (6) of this section applies—

(i) If a loan period is more than one payment period, the school shall disburse loan proceeds at least once in each payment period; and

(ii) If a loan period is one payment period, the school shall make at least two disbursements during that payment period. The school may not make the second disbursement until the calendar midpoint between the first and last scheduled days of class of the loan period.

(4) (i) If one or more payment periods have elapsed before a school makes a disbursement, the school may include in the disbursement loan proceeds for completed payment periods; or

(ii) If the loan period is equal to one payment period and more than one-half of it has elapsed, the school may include in the disbursement loan proceeds for the entire payment period.

(5) If an educational program measures academic progress in credit hours and does not use semesters, trimesters, or quarters, the school may not make a second disbursement until the later of—

(i) The calendar midpoint between the first and last scheduled days of class of the loan period; or

(ii) The date, as determined by the institution, that the student has completed half of the academic coursework in the loan period.

(6) If an educational program measures academic progress in clock hours, the school may not make a second disbursement until the later of—

(i) The calendar midpoint between the first and last scheduled days of class of the loan period; or

(ii) The date, as determined by the institution, that the student has completed half of the clock hours in the loan period.

(7) The school must disburse loan proceeds in substantially equal installments, and no installment may exceed one-half of the loan.

(8) A school not in a State is not required to make more than one disbursement.

(c) *Promissory note handling.*

(1) The Secretary provides promissory notes for use in the Direct Loan Program. A school may not modify, or make any additions to, the promissory note without the Secretary's prior written approval.

(2) A school that originates a loan shall provide to the Secretary an executed, legally enforceable promissory note as proof of the borrower's indebtedness.

(d) *Reporting to the Secretary.*

(1) A school that originates a loan must submit the promissory note, loan origination record, and initial and subsequent disbursement records to the Secretary no later than 30 days following the date of disbursement. A school must submit the loan origination record and disbursement record to the Secretary no later than 30 days following the date of disbursement for each subsequent disbursement.

(2) A school that participates under standard origination must submit the initial and subsequent disbursement record to the Secretary no later than 30 days following the date of disbursement. A school must submit the disbursement record to the Secretary no later than 30 days following the date of disbursement for each subsequent disbursement.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995. (a)(5) and (a)(6) redesignated as (a)(6) and (a)(7), respectively, and (a)(5) and (d) added December 1, 1995, effective July 1, 1996. (a)(1), (a)(3), (a)(4)(ii), and (b)(2)(iv) revised June 12, 1996, effective July 12, 1996.

Note: (a)(6) and (a)(7) revised June 19, 1996, effective July 1, 1996. (b) amended November 29, 1996, effective July 1, 1997. (a)(6) and (a)(7) redesignated as (a)(7) and (a)(8), respectively, and new (a)(6) added November 28, 1997, effective July 1, 1998.

Sec. 685.302—Schedule requirements for courses of study by correspondence.

(a) This section contains requirements relating to the enrollment status of students in schools that offer programs of study by correspondence.

(b) A school that offers a course of study by correspondence shall establish a schedule for submission of lessons by its students and provide it to a prospective student prior to the student's enrollment.

(c) The school shall include in its schedule—

(1) A due date for each lesson in the course;

(2) A description of the options, if any, available to the student for altering the sequence of lesson submissions from the sequence in which they are otherwise required to be submitted;

(3) The date by which the course is to be completed; and

(4) The date by which any resident training must begin, the location of any resident training, and the period of time within which that resident training must be completed.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995.

Sec. 685.303—Processing loan proceeds.

(a) *Purpose.* This section establishes rules governing a school's processing of a borrower's Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan proceeds. The school shall also comply with any rules for processing loan proceeds contained in 34 CFR Part 668.

(b) *General.*

(1) (i) *A school that initiates the drawdown of funds.* A school may not disburse loan proceeds to a borrower unless the school has obtained an executed, legally enforceable promissory note from the borrower.

(ii) *A school that does not initiate the drawdown of funds.* A school may disburse loan proceeds only to a borrower for whom the school has received funds from the Secretary.

(2) (i) Except in the case of a late disbursement under paragraph (d) of this section, or as provided in paragraph (b)(2)(iii) of this section, a school may disburse loan proceeds only to a student, or a parent in the case of a PLUS Loan, if the school determines the student has continuously maintained eligibility in accordance with the provisions of Sec. 685.200 from the beginning of the loan period described in the promissory note.

(ii) In the event a student delays attending school for a period of time, the school may consider that student to have maintained eligibility for the loan from the first day of the period of enrollment. However, the school must comply with the requirements under paragraph (b)(3) of this section.

(iii) If, after a school makes the first disbursement to a borrower, the student becomes ineligible due solely to the school's loss of eligibility to participate in the title IV programs or the Direct Loan Program, the school may make subsequent disbursements to the borrower as permitted by 34 CFR Part 668.

(iv) If, prior to making any disbursement to a borrower, the student temporarily ceases to be enrolled on at least a half-time basis, the school may make a disbursement and any subsequent disbursement to the student if the school determines and documents in the student's file—

(A) That the student has resumed enrollment on at least a half-time basis;

(B) The student's revised cost of attendance; and

(C) That the student continues to qualify for the entire amount of the loan, notwithstanding any reduction in the student's cost of attendance caused by the student's temporary cessation of enrollment on at least a half- time basis.

(3) If a registered student withdraws or is expelled prior to the first day of classes of the period of enrollment for which the loan is made, or fails

to attend school during that period, or if the school is unable for any other reason to document that the student attended school during that period, the school shall notify the Secretary, within 30 days of the date described in Sec. 685.305(a), of the student's withdrawal, expulsion, or failure to attend school, as applicable, and return to the Secretary—

(i) Any loan proceeds credited by the school to the student's account; and

(ii) The amount of payments made by the student to the school, to the extent that they do not exceed the amount of any loan proceeds disbursed by the school to the student.

(4) If a student is enrolled in the first year of an undergraduate program of study and has not previously received a Federal Stafford, Federal Supplemental Loans for Students, Direct Subsidized, or Direct Unsubsidized Loan, a school may not disburse the proceeds of a Direct Subsidized or Direct Unsubsidized Loan until 30 days after the first day of the student's program of study.

(c) *Processing of the proceeds of a Direct Loan.* Schools shall follow the procedures for disbursing funds in 34 CFR 668.164.

(d) *Late Disbursement.* A school may make a late disbursement according to the provisions found under 34 CFR 668.164(g).

(e) *Treatment of excess loan proceeds.* Before the disbursement of any Direct Subsidized or Direct Unsubsidized Loan proceeds, if a school learns that the borrower will receive or has received financial aid for the period of enrollment for which the loan was intended that exceeds the amount of assistance for which the student is eligible, the school shall reduce or eliminate the overaward by either—

(1) Using the student's Direct Unsubsidized, Direct PLUS, or State-sponsored or another non-Federal loan to cover the expected family contribution, if not already done; or

(2) Reducing one or more subsequent disbursements to eliminate the overaward.

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995. (b)(2)(i) revised and (d)(3)(iii) and (d)(3)(iv) added June 12, 1996, effective July 12, 1996. (c) and (d) amended November 29, 1996, effective July 1, 1997.

Sec. 685.304—Counseling borrowers.

(a) *Initial counseling.*

(1) Except as provided in paragraph (a)(5) of this section, a school shall conduct initial counseling prior to making the first disbursement of the proceeds of a Direct Subsidized or Direct Unsubsidized Loan to a borrower unless—

(i) The borrower is enrolled in a correspondence program or a study-abroad program approved for credit at the home school; or

(ii) The borrower has received a prior Direct Subsidized, Direct Unsubsidized, Federal Stafford, Federal Unsubsidized Stafford, or Federal SLS Loan.

(2) The counseling must be in person, by audiovisual presentation, or by computer-assisted technology. In each case, the school shall ensure that an individual with knowledge of the title IV programs is reasonably available shortly after the counseling to answer the borrower's questions regarding those programs. In the case of a student enrolled in a correspondence program or a study-abroad program approved for credit at the home school, the school shall provide the borrower with written counseling materials by mail prior to disbursing the loan proceeds.

(3) In conducting the initial counseling, the school shall—

(i) Emphasize to the borrower the seriousness and importance of the repayment obligation the borrower is assuming;

(ii) Describe in forceful terms the likely consequences of default, including adverse credit reports, garnishment of wages, and litigation;

(iii) Provide the borrower with general information with respect to the average indebtedness of students who have obtained Direct Subsidized or Direct Unsubsidized Loans for attendance at that school or in the borrower's program of study; and

(iv) Inform the student as to the average anticipated monthly repayment for those students based on the average indebtedness provided under paragraph (a)(3)(iii) of this section.

(4) Additional matters that the Secretary recommends that a school include in the initial counseling session or materials are set forth in Appendix D to 34 CFR Part 668.

(5) A school may adopt an alternative approach for initial counseling as part of the school's quality assurance plan described in Sec. 685.300(b)(9). If a school adopts an alternative approach, it is not required to meet the requirements of paragraphs (a)(1)-(3) of this section unless the Secretary determines that the alternative approach is not adequate for the school. The alternative approach must—

(i) Ensure that each borrower subject to initial counseling under paragraph (a)(1) of this section is provided written counseling materials that contain the information described in paragraph (a)(3) of this section;

(ii) Be designed to target those students who are most likely to default on their repayment obligations and provide them more intensive counseling and support services; and

(iii) Include performance measures that demonstrate the effectiveness of the school's alternative approach. These performance measures must include objective outcomes, such as levels of borrowing, default rates, and withdrawal rates.

(b) *Exit counseling.*

(1) A school shall conduct in-person exit counseling with each Direct Subsidized or Direct Unsubsidized Loan borrower shortly before the borrower ceases at least half-time study at the school, except that—

(i) In the case of a correspondence program, the school shall provide the borrower with written counseling materials by mail within 30 days after the borrower completes the program; and

(ii) If the borrower withdraws from school without the school's prior knowledge or fails to attend an exit counseling session as scheduled, the school shall mail written counseling materials to the borrower at the borrower's last known address within 30 days after the school learns that the borrower has withdrawn from school or failed to attend the scheduled session.

(2) In conducting the exit counseling, the school shall—

(i) Inform the student of the average anticipated monthly repayment amount based on the student's indebtedness or on the average indebtedness of students who have obtained Direct Subsidized or Direct Unsubsidized Loans for attendance at that school or in the borrower's program of study.

(ii) Review for the borrower available repayment options including the standard repayment, extended repayment, graduated repayment, and income contingent repayment plans, and loan consolidation;

(iii) Provide options to the borrower concerning those debt-management strategies that the school determines would facilitate repayment by the borrower;

(iv) Explain to the borrower how to contact the party servicing the student's Direct Loans;

(v) Meet the requirements described in paragraphs (a)(3) (i) and (ii) of this section;

(vi) Review with the borrower the conditions under which the borrower may defer repayment or obtain cancellation of a loan; and

(vii) Require the borrower to provide corrections to the school's records concerning name, address, social security number, references, and driver's license number and State of issuance, as well as the name and address of the borrower's expected employer (if known). The school shall provide this information to the Secretary within 60 days.

(3) Additional matters that the Secretary recommends that a school include in the exit counseling session or materials are set forth in Appendix D to 34 CFR Part 668.

(4) The school shall maintain in the student borrower's file documentation substantiating the school's compliance with paragraphs (a) and (b) of this section as to that borrower.

(Authority: 20 U.S.C. 1087a et seq.)

Note: (b)(2)(i) revised November 28, 1997, effective July 1, 1998.

Sec. 685.305—Determining the date of a student's withdrawal.

(a) Except as provided in paragraph (b) of this section, a school shall follow the procedures in 34 CFR 668.22(j) for determining the student's date of withdrawal.

(b) For a student who does not return for the next scheduled term following a summer break, which includes any summer term(s) in which classes are offered but students are not generally required to attend, a school shall follow the procedures in 34 CFR 668.22(j) for determining the student's date of withdrawal except that the school must determine the student's date of withdrawal no later than 30 days after the start of the next scheduled term.

(c) The school shall use the date determined under paragraph (a) or (b) of this section for the purpose of reporting to the Secretary the student's date of withdrawal and for determining when a refund must be paid under Sec. 685.306.

(Authority: 20 U.S.C. 1087 et seq.)

Note: Section revised June 12, 1996, effective July 12, 1996.

Sec. 685.306—Payment of a refund to the Secretary.

(a) *General.* By applying for a Direct Loan, a borrower authorizes the school to pay directly to the Secretary that portion of a refund from the school that is allocable to the loan. A school—

(1) Shall pay that portion of the student's refund that is allocable to a Direct Loan to the Secretary; and

(2) Shall provide simultaneous written notice to the borrower if the school pays a refund to the Secretary on behalf of that student.

(b) *Determination, allocation, and payment of a refund.* In determining the portion of a student's refund that is allocable to a Direct Loan, the school shall follow the procedures established in 34 CFR 668.22 for allocating and paying a refund that is due.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.307—Withdrawal procedure for schools participating in the Direct Loan Program.

(a) A school participating in the Direct Loan Program may withdraw from the program by providing written notice to the Secretary.

(b) A participating school that intends to withdraw from the Direct Loan Program shall give at least 60 days notice to the Secretary.

(c) Unless the Secretary approves an earlier date, the withdrawal is effective on the later of—

(1) 60 days after the school notifies the Secretary; or

(2) The date designated by the school.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.308—Remedial actions.

(a) *General.* The Secretary may require the repayment of funds and the purchase of loans by the school if the Secretary determines that the unenforceability of a loan or loans, or the disbursement of loan amounts for which the borrower was ineligible, resulted in whole or in part from—

(1) The school's violation of a Federal statute or regulation; or

(2) The school's negligent or willful false certification.

(b) In requiring a school to repay funds to the Secretary or to purchase loans from the Secretary in connection with an audit or program review, the Secretary follows the procedures described in 34 CFR part 668, subpart H.

(c) The Secretary may impose a fine or take an emergency action against a school or limit, suspend, or terminate a school's participation in the Direct Loan Program in accordance with 34 CFR part 668, subpart G.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.309—Administrative and fiscal control and fund accounting requirements for schools participating in the Direct Loan Program.

(a) *General.* A participating school shall—

(1) Establish and maintain proper administrative and fiscal procedures and all necessary records as set forth in this part and in 34 CFR part 668; and

(2) Submit all reports required by this part and 34 CFR part 668 to the Secretary.

(b) *Student status confirmation reports.* A school shall—

(1) Upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and

(2) Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who—

(i) Enrolled at that school but has ceased to be enrolled on at least a half-time basis;

(ii) Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or

(iii) Has changed his or her permanent address.

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(3) The Secretary provides student status confirmation reports to a school at least semi-annually.

(4) The Secretary may provide the student status confirmation report in either paper or electronic format.

(c) *Record retention requirements.* An institution shall follow the record retention and examination requirements in this part and in 34 CFR 668.24.

(d) *Accounting requirements.* A school shall follow accounting requirements in 34 CFR 668.24(b).

(e) *Direct Loan Program bank account.* Schools shall follow the procedures for maintaining funds established in 34 CFR 668.163.

(f) *Division of functions.* Schools shall follow the procedures for division of functions in 34 CFR 668.16(c).

(g) *Limit on use of funds.* Except for funds paid to a school under section 452(b)(1) of the Act, funds received by a school under this part may be used only to make Direct Loans to eligible borrowers and may not be used or hypothecated for any other purpose.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995. (a)(1), (c), and (d) revised; (e), (f), and (g) removed; (h), (i), and (j) redesignated as (e), (f), and (g), respectively November 27, 1996, effective July 1, 1997.

(e) amended November 29, 1996, effective July 1, 1997.

Subpart D: School Participation and Loan Origination in the Direct Loan Program

Sec. 685.400—School participation requirements for academic years 1996-1997 and beyond.

(a) (1) In order to qualify for initial participation in the Direct Loan Program, a school must meet the eligibility requirements in section 435(a) of the Act, including the requirement that it have a cohort default rate of less than 25 percent for at least one of the three most recent fiscal years for which data are available unless the school is exempt from this requirement under section 435(a)(2)(C) of the Act.

(2) In order to continue to participate in the Direct Loan Program, a school must continue to meet the requirements of paragraph (a)(1) of this section for years for which cohort default rate data represent the years prior to the school's participation in the Direct Loan Program.

(b) In order to qualify for initial participation, the school must not be subject to an emergency action or a proposed or final limitation, suspension, or termination action under sections 428(b)(1)(T), 432(h), or 487(c) of the Act.

(c) If schools apply as a consortium, each school in the consortium must meet the requirements in paragraphs (a) and (b) of this section.

(Authority: 20 U.S.C. 1087a et seq.)

Sec. 685.401—Selection criteria and process for academic years 1996-1997 and beyond.

(a) The Secretary selects schools to participate in the Direct Loan Program for an academic year beginning in 1996-1997 from among those that apply to participate.

(b) In evaluating an application from an eligible school, the Secretary—

(1) To the extent possible, selects schools that are reasonably representative of the schools that are participating in the FFEL Program in terms of anticipated loan volume, length of academic program, control of the school, highest degree offered, size of student enrollment, geographic location, annual loan volume, and default experience; and

(2) In order to ensure an expeditious but orderly transition from the FFEL Program to the Direct Loan Program, selects schools that the Secretary believes will make the transition as smooth as possible.

(Authority: 20 U.S.C. 1087a et seq.)

(Approved by the Office of Management and Budget under control number 1840-0672)

Note: OMB control number added June 28, 1995, effective July 1, 1995.

Sec. 685.402—Criteria for schools to originate loans for academic years 1996-1997 and beyond.

(a) *Initial determination of origination status.*

(1) *Standard origination.* Any school eligible to participate in the Direct Loan Program under Sec. 685.400 is eligible to participate under standard origination.

(2) *School Origination.* To be eligible to originate loans, a school must meet the following criteria:

(i) Have participated in the Federal Perkins Loan Program, the Federal Pell Grant Program, or, for a graduate and professional school, a similar program for the three most recent years preceding the date of application to participate in the Direct Loan Program.

(ii) If participating in the Federal Pell Grant Program, not be on the reimbursement system of payment.

(iii) In the opinion of the Secretary, have had no severe performance deficiencies for any of the programs under title IV of the Act, including deficiencies demonstrated by the most recent audit or program review.

(iv) Be financially responsible in accordance with the standards of 34 CFR 668.15.

(v) Be current on program and financial reports and audits required under title IV of the Act for the 12-month period immediately preceding the date of application to participate in the Direct Loan Program.

(vi) Be current on Federal cash transaction reports required under title IV of the Act for the 12-month period immediately preceding the date of application to participate in the Direct Loan Program and have no final determination of cash on hand that exceeds immediate title IV program needs.

(vii) Have no material findings in any of the annual financial audits submitted for the three most recent years preceding the date of application to participate in the Direct Loan Program.

(viii) Provide an assurance that the school has no delinquent outstanding debts to the Federal Government, unless—

(A) Those debts are being repaid under or in accordance with a repayment arrangement satisfactory to the Federal Government; or

(B) The Secretary determines that the existence or amount of the debts has not been finally determined by the cognizant Federal agency.

(3) A school that meets the criteria to originate loans may participate under school origination option 1 or 2 or under standard origination.

(b) *Change in origination status.*

(1) After the initial determination of a school's origination status, the Secretary may allow a school that does not qualify to originate loans under either origination option 1 or origination option 2 to do so if the Secretary determines that the school is fully capable of originating loans under one of those options.

(2) (i) At any time after the initial determination of a school's origination status, a school participating under origination option 2 may request to change to origination option 1 or standard origination, and a school participating under origination option 1 may request to change to standard origination.

(ii) The change in origination status becomes effective when the school receives notice of the Secretary's approval, unless the Secretary specifies a later date.

(3) (i) A school participating under origination option 1 may apply to participate under option 2, and a school participating in standard origination may apply to participate under either origination option 1 or 2 after one full year of participation in its initial origination status.

(ii) Applications to participate under another origination option are considered on an annual basis.

(iii) An application to participate under another origination option is evaluated on the basis of criteria and performance standards established by the Secretary, including but not limited to—

(A) Eligibility under paragraph (a)(2) of this section;

(B) Timely submission of accurate origination and disbursement records;

(C) Successful completion of reconciliation on a monthly basis; and

(D) Timely submission of completed and signed promissory notes, if applicable.

(iv) The change in origination status becomes effective when the school receives notice of the Secretary's approval, unless the Secretary specifies a later date.

(c) *Secretarial determination of change in origination status.*

(1) At any time after a school has been approved to originate loans, the Secretary may require a school participating under origination option 2 to convert to option 1 or to standard origination and may require a school participating under origination option 1 to convert to standard origination.

(2) The Secretary may require a school to change origination status if the Secretary determines that such a change is necessary to ensure program integrity or if the school fails to meet the criteria and performance standards established by the Secretary, including but not limited to—

(i) For an origination option 1 school, eligibility under paragraph (a)(2) of this section, the timely submission of completed and signed promissory notes and accurate origination and disbursement records, and the successful completion of reconciliation on a monthly basis; and

(ii) For an origination option 2 school, the criteria and performance standards required of origination option 1 schools and accurate and timely drawdown requests.

(3) The change in origination status becomes effective when the school receives notice of the Secretary's approval, unless the Secretary specifies a later date.

(d) *Origination by consortia.* A consortium of schools may participate under origination options 1 or 2 only if all members of the consortium are eligible to participate under paragraph (a)(2) of this section. All provisions of this section that apply to an individual school apply to a consortium.

(e) School determination of change of Servicer.

(1) The Secretary assigns one or more Servicers to work with a school to perform certain functions relating to the origination and servicing of Direct Loans.

(2) A school may request the Secretary to designate a different Servicer. Documentation of the unsatisfactory performance of the school's current Servicer must accompany the request. The Servicer requested must be one of those approved by the Secretary for participation in the Direct Loan Program.

(3) The Secretary grants the request if the Secretary determines that—

(i) The claim of unsatisfactory performance is accurate and substantial; and

(ii) The Servicer requested by the school can accommodate such a change.

(4) If the Secretary denies the school's request based on a determination under paragraph (e)(3)(ii) of this section, the school may request another Servicer.

(5) The change in Servicer is effective when the school receives notice of the Secretary's approval, unless the Secretary specifies a later date.

(Authority: 20 U.S.C. 1087a et seq.)

Appendix A: Income Contingent Repayment

Note: Appendix amended July 1, 1997, effective July 1, 1997.

Examples of the Calculation of Monthly Repayment Amounts

✦ *Example 1.* A single borrower with $12,500 of Direct Loans, 8.25 percent interest rate, and an adjusted gross income (AGI) of $22,791.

Step 1: Determine annual payments based on what the borrower would pay over 12 years using standard amortization. To do this, multiply the principal balance by the constant multiplier for 8.25 percent interest (0.1315452). The constant multiplier is a factor used to calculate amortized payments at a given interest rate over a fixed period of time. (See the constant multiplier chart below to determine the constant multiplier you should use for the interest rate on the loan. If the exact interest rate is not listed, use the next highest for estimation purposes.)

▶ 0.1315452 x 12,500 = 1,644.315

Step 2: Multiply the result by the income percentage factor shown in the income percentage factor table that corresponds to the borrower's income (if the income is not listed, you can calculate the applicable income percentage factor by following the instructions under the interpolation heading below):

▶ 80.33% (0.8033) x 1,644.315 = 1,320.8782

Step 3: Determine 20 percent of discretionary income. For a single borrower, subtract the poverty level for a family of one, as published in the Federal Register on March 10, 1997 (62 FR 10856), from the borrower's income and multiply the result by 20%:

▶ $22,791 - $7,890 = $14,901

▶ $14,901 x 0.20 = $2,980.20

Step 4: Compare the amount from step 2 with the amount from step 3. The lower of the two will be the borrower's annual payment amount. This borrower will be paying the amount calculated under step 2. To determine the monthly repayment amount, divide the annual amount by 12.

▶ 1,320.8782 / 12 = $110.07

✦ *Example 2.* Married borrowers repaying jointly under the income contingent repayment plan with a combined AGI of $28,627. The husband has a Direct Loan balance of $5,000, and the wife has a Direct Loan balance of $15,000. The interest rate is 8.25 percent. This couple has no children.

Step 1: Add the Direct Loan balances of the husband and wife together to determine the aggregate loan balance.

▶ $5,000 + $15,000 = $20,000

Step 2: Determine the annual payments based on what the couple would pay over 12 years using standard amortization. To do this, multiply the aggregate principal balance by the constant multiplier for 8.25 percent interest (0.1315452). (See the constant multiplier chart to determine the constant multiplier you should use for the interest rate on the loan. If the exact interest rate is not listed, choose the next highest rate for estimation purposes.)

▶ 0.1315452 x 20,000 = 2,630.904

Step 3: Multiply the result by the income percentage factor shown in the income percentage factor table that corresponds to the couple's income (if the income is not listed, you can calculate the applicable income percentage factor by following the instructions under the interpolation heading below):

▶ 87.61% (0.8761) x 2,630.904 = 2,304.9350

Step 4: Determine 20 percent of the couple's discretionary income. To do this, subtract the HHS poverty level for a family of 2, as published in the Federal Register on March 10, 1997 (62 FR 10856), from the couple's income and multiply the result by 20 percent:

▶ $28,627 - $10,610=$18,017

▶ $18,017 x 0.20=$3,603.40

Step 5: Compare the amount from step 3 with the amount from step 4. The lower of the two will be the annual payment amount. The married borrowers will be paying the amount calculated under step 3. To determine the monthly repayment amount, divide the annual amount by 12.

▶ 2,304.9350 / 12 = $192.08

✦ *Interpolation:* If your income does not appear on the income percentage factor table, you will have to calculate the income percentage factor through interpolation. For example, assume you are single and your income is $26,000.

- To interpolate, you must first find the interval between the closest income listed that is less than

$26,000 and the closest income listed that is greater than $26,000 (for this discussion, we'll call the result "the income interval"):

▶ $28,627 - $22,791 = $5,836

- *Next*, find the interval between the two income percentage factors that are given for these incomes (for this discussion, we'll call the result, the "income percentage factor interval"):

  ▶ 88.77 - 80.33 = 8.44

- **Subtract** the income shown on the chart that is immediately less than $26,000 from $26,000:

  ▶ $26,000 - $22,791 = $3,209

- **Divide** the result by the number representing the income interval:

  ▶ $3,209 / $5,836 = 0.5499

- **Multiply** the result by the income percentage factor interval:

  ▶ 0.5499 x 8.44 = 4.64

- **Add** the result to the lower income percentage factor used to calculate the income percentage factor interval for $26,000 in income:

  ▶ 4.64 + 80.33 = 84.97%

The result is the income percentage factor that will be used to calculate the monthly repayment amount under the income contingent repayment plan.

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Income Percentage Factors
(Based on Annual Income)

Single		Married and Head of Household	
Income	**% Factor**	**Income**	**% Factor**
$7,851	55.00%	$7,851	50.52%
$10,803	57.79%	$12,389	56.68%
$13,901	60.57%	$14,765	59.56%
$17,070	66.23%	$19,302	67.79%
$20,096	71.89%	$23,912	75.22%
$23,912	80.33%	$30,035	87.61%
$30,035	88.77%	$37,668	100.00%
$37,669	100.00%	$45,304	100.00%
$45,304	100.00%	$56,757	109.40%
$54,450	111.80%	$75,842	125.00%
$69,721	123.50%	$102,563	140.60%
$98,747	141.20%	$143,439	150.00%
$113,223	150.00%	$234,390	200.00%
$201,670	200.00%	-----	----

CONSTANT MULTIPLIER CHART FOR 12-YEAR AMORTIZATION

Interest Rate	7.00%	7.25%	7.43%	7.50%	7.75%	8.00%	8.25%	8.38%	8.50%	8.75%	9.00%
Annual Constant Multiplier	0.1234056	0.1250112	0.126174	0.1266276	0.1282548	0.129894	0.1315452	0.132408	0.1332072	0.13488	0.1365636

Sample First-Year Monthly Repayment Amounts for a Married or Head-of-Household Borrower at Various Income and Debt Levels
(Family Size = 3)

	Initial Debt																							
Income	**$2,500**	**$5,000**	**$7,500**	**$10,000**	**$12,500**	**$15,000**	**$17,500**	**$20,000**	**$22,500**	**$25,000**	**$30,000**	**$35,000**	**$40,000**	**$45,000**	**$50,000**	**$55,000**	**$60,000**	**$65,000**	**$70,000**	**$75,000**	**$80,000**	**$85,000**	**$90,000**	**$100,000**
$1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8,000	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
9,000	15	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
10,000	16	32	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35
12,500	16	33	49	66	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77
15,000	17	35	52	70	87	105	119	119	119	119	119	119	119	119	119	119	119	119	119	119	119	119	119	119
17,500	19	38	56	75	94	113	132	150	160	160	160	160	160	160	160	160	160	160	160	160	160	160	160	160
20,000	20	40	61	81	101	121	142	162	182	202	202	202	202	202	202	202	202	202	202	202	202	202	202	202
22,500	22	44	65	87	109	131	153	175	196	218	244	244	244	244	244	244	244	244	244	244	244	244	244	244
25,000	23	46	69	92	114	137	160	183	206	229	275	285	285	285	285	285	285	285	285	285	285	285	285	285
30,000	25	50	75	100	125	149	174	199	224	249	299	349	369	369	369	369	369	369	369	369	369	369	369	369
35,000	27	54	81	108	135	162	189	216	243	270	324	378	432	452	452	452	452	452	452	452	452	452	452	452
40,000	27	55	82	110	137	164	192	219	247	274	329	384	438	493	535	535	535	535	535	535	535	535	535	535
45,000	28	56	84	112	140	168	197	225	253	281	337	393	449	505	562	618	619	619	619	619	619	619	619	619
50,000	30	60	90	120	150	180	210	239	269	299	359	419	479	539	599	659	702	702	702	702	702	702	702	702
55,000	31	63	94	125	157	188	219	251	282	313	376	439	501	564	626	689	752	785	785	785	785	785	785	785
60,000	32	65	97	130	162	195	227	259	292	324	389	454	519	584	648	713	778	843	869	869	869	869	869	869
65,000	34	67	101	134	168	201	235	268	302	335	402	469	536	603	671	738	805	872	939	952	952	952	952	952
70,000	34	69	103	138	172	207	241	276	310	345	414	483	551	620	689	758	827	896	965	1,034	1,035	1,035	1,035	1,035
75,000	35	71	106	141	177	212	247	283	318	353	424	495	566	636	707	778	848	919	990	1,060	1,119	1,119	1,119	1,119
80,000	36	72	109	145	181	217	254	290	326	362	435	507	580	652	724	797	869	942	1,014	1,087	1,159	1,202	1,202	1,202
85,000	37	74	111	148	185	223	260	297	334	371	445	519	594	668	742	816	890	965	1,039	1,113	1,187	1,261	1,285	1,285
90,000	38	76	114	152	190	228	266	304	342	380	456	532	608	684	759	835	911	987	1,063	1,139	1,215	1,291	1,367	1,369
95,000	39	78	117	155	194	233	272	311	350	389	466	544	622	699	777	855	932	1,010	1,088	1,166	1,243	1,321	1,399	1,452
100,000	40	79	119	159	199	238	278	318	358	397	477	556	636	715	794	874	953	1,033	1,112	1,192	1,271	1,351	1,430	1,535

Sample repayment amounts are based on an interest rate of 8.25%.

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Income Contingent Repayment Plan
Sample First-Year Monthly Repayment Amounts for a Married or Head-of-Household Borrower at Various Income and Debt Levels
(Family Size = 3)

	Initial Debt																							
Income	$2,500	$5,000	$7,500	$10,000	$12,500	$15,000	$17,500	$20,000	$22,500	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000	$100,000
$1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15,000	17	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28
17,500	18	36	54	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70
20,000	19	39	58	77	97	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111
22,500	20	41	61	82	102	123	143	153	153	153	153	153	153	153	153	153	153	153	153	153	153	153	153	153
25,000	22	44	66	88	109	131	153	175	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195
30,000	25	49	74	99	123	148	173	197	222	247	278	278	278	278	278	278	278	278	278	278	278	278	278	278
35,000	27	54	81	108	135	162	189	216	243	270	324	361	361	361	361	361	361	361	361	361	361	361	361	361
40,000	27	55	82	110	137	164	192	219	247	274	329	384	438	445	445	445	445	445	445	445	445	445	445	445
45,000	28	56	84	111	139	167	195	223	251	278	334	390	445	501	528	528	528	528	528	528	528	528	528	528
50,000	29	58	87	116	145	174	203	232	261	290	348	406	464	522	580	611	611	611	611	611	611	611	611	611
55,000	30	60	91	121	151	181	211	242	272	302	362	423	483	543	604	664	695	695	695	695	695	695	695	695
60,000	31	63	94	125	157	188	220	251	282	314	376	439	502	565	627	690	753	778	778	778	778	778	778	778
65,000	33	65	98	130	163	195	228	260	293	325	391	456	521	586	651	716	781	846	861	861	861	861	861	861
70,000	34	67	101	135	169	202	236	270	303	337	405	472	540	607	674	742	809	877	944	945	945	945	945	945
75,000	35	69	104	139	174	208	243	278	312	347	417	486	555	625	694	764	833	903	972	1,028	1,028	1,028	1,028	1,028
80,000	36	71	107	142	178	213	249	284	320	356	427	498	569	640	711	782	853	924	995	1,067	1,111	1,111	1,111	1,111
85,000	36	73	109	146	182	218	255	291	328	364	437	509	582	655	728	801	873	946	1,019	1,092	1,164	1,195	1,195	1,195
90,000	37	74	112	149	186	223	261	298	335	372	447	521	596	670	745	819	894	968	1,042	1,117	1,191	1,266	1,278	1,278
95,000	38	76	114	152	190	228	266	305	343	381	457	533	609	685	761	838	914	990	1,066	1,142	1,218	1,294	1,361	1,361
100,000	39	77	116	155	193	232	271	309	348	387	464	542	619	696	774	851	928	1,006	1,083	1,160	1,238	1,315	1,392	1,445

Sample repayment amounts are based on an interest rate of 8.25%.

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Poverty Guidelines (referred to in Sec. 685.209(a)(3)

To use this chart, you must first determine your family size, which is the number of people whom you support.

- Include yourself and your spouse.
- Include your children if they get more than half their support from you.
- Include other people only if they meet all of the following criteria:
  - They live with you.
  - They now get more than half their support from you.
  - They will continue to get this support from you.

  Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, payment of college costs, and so on.

Next, find the column that represents your place of residence. Read down to your family size. This is the poverty guideline for you.

1999 HHS Poverty Guidelines

Family Size	All states and the District of Columbia[1] (except Alaska, Hawaii)	Alaska[2]	Hawaii[3]
1	$8,240	$10,320	$9,490
2	$11,060	$13,840	$12,730
3	$13,880	$17,360	$15,970
4	$16,700	$20,880	$19,210
5	$19,520	$24,400	$22,450
6	$22,340	$27,920	$25,690
7	$25,160	$31,440	$28,930
8	$27,980	$34,960	$32,170

[1] For families with more than eight members, add $2,820 for each additional member.
[2] For families with more than eight members, add $3,520 for each additional member.
[3] For families with more than eight members, add $3,240 for each additional member.

Information provided by the U.S. Department of Health and Human Services.

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Direct Loans

a better way to borrow

THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

Appendix D:
The Direct Loan Quality
Assurance Planning Guide

School Guide

Appendix D: The Direct Loan Quality Assurance Planning Guide

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Direct Loan Quality Assurance Planning Guide

Appendix D

U.S. Department of Education
Office of Postsecondary Education
Student Financial Assistance Programs

THE DIRECT LOAN
QUALITY ASSURANCE PLANNING GUIDE:
1999-2000

Ensuring Continuous Improvement
in the Delivery of Student Financial Aid

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Information contained in this guide, including ***suggested*** management assessment worksheets, will also be provided on diskette to add flexibility in the actual use of this guide by institutions. Further, the format of the management assessment worksheets may be changed or expanded to best fit institutional needs.

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INTRODUCTION

Leading organizations are finding that by incorporating quality improvement concepts into their planning and operations, managers can better respond to the needs of their customers while improving the quality of their services. Many financial aid administrators are integrating into their office operations widely recognized quality improvement practices, such as strategic planning, employee involvement, and structured problem-solving. Given the changing nature of student financial aid, these quality improvement practices can be an important means of offering better services to our primary customers—the student aid recipients.

Since 1985, many postsecondary institutions have been working in partnership with the U.S. Department of Education (ED) in testing the basic methodology of continuous quality improvement in administering the Title IV Student Financial Assistance Programs. The Institutional Quality Control Pilot Project demonstrated that quality management techniques and practices can assist institutions in achieving high quality financial aid operations and improve the accuracy of awards to students. The pilot's success has been recognized through the inclusion of the Quality Assurance Program (QAP) as part of the 1992 amendments to the Higher Education Act. Further, Congress authorized in the Direct Loan Program statute the requirement that participating institutions implement a quality assurance (QA) system. The requirement also appears in the Federal Code of Regulations at 34 CFR 685.300(b)(9).

ED has developed this *Quality Assurance Planning Guide (QA Planning Guide)* to assist Direct Loan institutions in establishing quality assurance systems within their financial aid office operations. The quality assurance system described in this document is patterned after the Quality Assurance Program, but it is more specifically focused on activities required for direct lending. Inquiries about the Direct Loan Quality Assurance System should be directed to the regional office of the Direct Loan Account Management Group that services your institution.

The QAP system is Title IV-wide in scope and provides greater management flexibility to participating institutions through regulatory waivers. Institutions wishing to learn more about the Quality Assurance Program are encouraged to contact:

Performance and Accountability Improvement Branch
Office of Student Financial Assistance
U.S. Department of Education
(Attn: Quality Assurance Program)
400 Maryland Avenue, S.W.
ROB-3, Room 3925
Washington, D.C. 20202

(202) 260-4788

Objectives of ED's Quality Assurance Efforts

The goal of the quality assurance system in the Direct Loan Program is to promote excellence in institutional administration of direct lending. To be effective, the steps for implementing a Direct Loan QA system take into account variations in characteristics and needs among institutions. As a result, both the interests of the federal government and institutions are served because institutions are designing and implementing resource-effective and institution-specific procedures and policies. This should result in improved institutional stewardship of federal funds and improved award accuracy.

Through self-assessment, institutions can identify any deficiencies and address them with management improvements.

These actions will enhance performance by reducing or eliminating areas of vulnerability. In the process, institutions are able to:

- understand and comply with Direct Loan Program and certain other Title IV requirements, and integrate these requirements effectively into financial aid office processes and procedures;
- develop innovative management approaches tailored to institutional characteristics, and create an organizational environment supportive of continuous improvement of quality; and
- work cooperatively with ED as the institutions take on the responsibility for quality improvement at the point where funds and services are delivered.

Institutions can meet the QA requirement in the Direct Loan Program by conducting any one of the following options:

1) Completing the Direct Loan Management Assessment contained in the QA Planning Guide and implementing corrective actions; or

2) Completing the Title IV Management Assessment contained in the QA Planning Guide and implementing corrective actions; or

3) Running the Measurement Tools contained in the EDExpress Software and assessing the results in order to implement corrective actions; or

4) Utilizing the NASFAA Self Assessment Guide; or

5) Utilizing any comparable quality assurance methodology or analysis tool.

Note: Institutions participating in ED's Quality Assurance Program (QAP) and the Direct Loan Program are not required to complete the Direct Loan Management Assessment or adopt any additional self-assessment. These institutions will complete the Title IV Management Assessment worksheets prescribed by ED's QAP.

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Using the Quality Assurance Planning Guide

This guide has been organized into five steps that are based on *suggested* key quality improvement practices as they relate to the role of the financial aid administrator. The steps focus on meeting the needs of the primary customer of the financial aid office—the student recipients of loans, grants, scholarships, and work-study funding. The steps are progressive, with each step building on the step that precedes it. A brief description of each step follows:

- **Step One—Setting the Direction** emphasizes the importance of developing an overall strategy for establishing a quality assurance system and understanding the needs and expectations of students. It entails mobilizing the support of institutional leaders and assessing the resources that will be available to conduct quality assurance activities.
- **Step Two—Involving Staff** addresses the importance of identifying the appropriate staff members within the financial aid office and in other offices on campus who should be involved in initiating and maintaining the QA system. It also emphasizes the importance of clear communication, teamwork, and recognizing contributions of staff.
- **Step Three—Assessing Operations** describes how to conduct an evaluation of office operations using an assessment instrument. It provides a method for periodically evaluating financial aid procedures against federal requirements and for identifying areas that need improvement.
- **Step Four—Taking Action** helps institutions use the results of the assessment to remedy areas of vulnerability and implement new procedures to improve financial aid office operations. It assists financial aid administrators to schedule and monitor identified improvement activities.
- **Step Five—Reviewing Progress** describes both the use of the assessment results as a baseline for continuous improvement and the recurring assessment activities institutions will perform in subsequent years. It also provides an overview of networking opportunities with other direct lending institutions. ***There is no reporting requirement to ED. Institutions will maintain documentation concerning its quality assurance system in a QA Master File at the institution.***

STEP ONE—SETTING THE DIRECTION

Implementing a quality assurance system for the Direct Loan Program presents a unique opportunity. It will allow institutions to help ensure a successful student financial aid system using approaches that are suited to individual institutional characteristics. To do this, senior managers, including the financial aid administrators, must help set the direction for their institutions to implement Direct Loans from a perspective of continuous quality improvement. Key planning considerations include:

- securing and sustaining the commitment of institutional top managers;
- engaging the participation and partnership of institutional staff;
- creating and coordinating a schedule for implementation; and
- focusing on improving services to students.

Institutions that are already involved in quality improvement programs at some level will have a head start, as will institutions whose top managers are already committed to quality assurance concepts. The goal of setting the direction is to make realistic and good faith efforts to maintain a program focused on continuous improvement that will result in the sound administration of Direct Loans and the improved stewardship of Title IV funds. Techniques that can be used in carrying out improvement goals follow.

Securing and Sustaining the Commitment of Institutional Top Managers

The sustained commitment and participation of institutional senior managers in partnership with the financial aid administrator are necessary for a successful QA system that yields continuous improvement. Early involvement will help establish an environment that is conducive to change.

Institutions that utilize quality assurance principles have found that communication is key in obtaining and maintaining support from supervisors and others who have the power to make management decisions and authorize resources. For example, memoranda, presentations, and briefings to appropriate personnel about the tasks the financial aid office and other offices must undertake to implement a quality assurance system are mechanisms to help elicit the necessary support and commitment from senior managers.

Engaging the Participation and Partnership of Institutional Staff

Financial aid administrators have always understood that the effective delivery of student aid involves other offices at their institutions, including the registrar's, admissions, and business offices. As a result, the active participation of those offices in developing and sustaining a QA system for Direct Loans is central to the success of the program.

One means of involving institutional staff members is to invite representatives of other offices to participate as an integral part of the QA team in assessing operations. Not only would their active involvement benefit financial aid office operations, it would also help to strengthen the overall coordination of student services within the institution. Because they are part of the team, staff members are more likely to be willing to assist when areas needing improvement require some modification of their offices' procedures.

Similarly, it is important to gain the involvement of staff members at all levels of the organization. The ***Department of Education's Quality Assurance Program*** (QAP) has shown that individuals on the "front lines" have many good ideas about how to improve services because they have first-hand experience with the effects of policies and procedures on students and other financial aid office customers.

Creating and Coordinating a Schedule

Establishing a realistic schedule for completing activities related to the assessment of operations and for taking action to modify areas that need improvement is basic to the success of a QA system. It provides a complete picture for the year of what tasks need to be performed and, therefore, helps everyone involved stay on track throughout the process.

Financial aid offices have many responsibilities, including those that are time sensitive. In addition, there will be new assignments with respect to implementation of the Direct Loan Program. As a result, consider linking the assessment of operations process to the financial aid office's master calendar and the master calendars of the other offices involved.

This will ensure sufficient lead time to collect information and begin making improvements. Once again, communicating with key offices and individuals at the institution by providing updates on the progress of the QA effort and soliciting feedback and support along the way is very important.

Each institution has the latitude to develop its own calendar. Institutions are not required to provide reports to ED concerning the quality assurance system implemented for the Direct Loan Program. Information regarding its quality assurance system is maintained in a QA Master file at the institution and made available to ED staff during on-site reviews .

Focusing on Improving Services to Students

The primary mission of the financial aid office is to serve the needs of its students. As a result, financial aid administrators might wish to examine office procedures and continuously improve the capability of financial aid office operations to assure student satisfaction. Examples of responsive approaches to address customer needs and expectations include:

- soliciting and measuring periodic feedback from customers;
- establishing communications channels for customers so they can have easy access to the financial aid information they need;
- initiating processes and appropriate oversight to ensure that requirements are being carried out in a timely, accurate, and effective manner; and
- determining organizational measures and service standards based on knowledge about customer requirements and expectations, and (as feasible) benchmarking data resulting from a comparative analysis of other institutions.

STEP TWO—INVOLVING STAFF

Widespread participation of staff members at all levels in the organization has proven to be a successful practice at institutions utilizing quality assurance principles. Involving staff members and organizing them into various teams to address implementation and modifications as needed might take some effort at the outset, as would any transition to a different mode of administration. However, when staff members become problem solvers, they are able to strengthen the effectiveness of office operations within a dynamic financial aid environment. Opportunities for employee teamwork and training are important ways to link staff members' insights and skills to improvement efforts.

How to Use Teams

Institutions utilizing quality assurance principles have ascertained that a team approach is an important technique to use to develop the necessary staff support for implementing a quality assurance system. Employee involvement through the use of teams is effective because it accomplishes certain important objectives, such as:

- helping to coordinate quality assurance procedures within and across institutional offices;
- providing a pool of resources for information, ideas, and implementation;
- aiding in the dissemination of information about the quality assurance system, thereby increasing visibility and potential support; and
- contributing to a widespread commitment to improving quality.

Here is one example of how the team approach could be used to implement the assessment activities (Step Three) and improvement activities (Step Four) in a Direct Loan QA system.

> *The school organized a team to oversee assessing operations, with team members recruited from offices on which the administration of the Direct Loan Program will have an impact (for example, certainly the financial aid office, but also the business office). The team then established work groups to accomplish the assessment based on the function being evaluated. In this way, the Assessment process benefitted from input of staff across functions and at all levels.*
>
> *As the Assessment team completed the evaluation and identified and prioritized areas that needed attention, a set of task teams were assembled to perform any improvement actions that may be required. Similar to the Assessment team, the task teams involved staff members who crossed functions and levels. That is, each task team included a combination of individuals who were affected by the area designated for improvement and by individuals who were knowledgeable about that area.*

How to Make Teams Most Effective

Based on the experience of the institutions utilizing quality assurance principles and other organizations committed to continuous improvement, team members work together more effectively when they receive adequate training and recognition for their contributions.

- **Training** consists of activities that enhance teamwork, such as team building, brainstorming, and problem-solving (more information on this type of training can be obtained from ED's Performance and Accountability Improvement Branch. Just as important, training also includes providing opportunities for staff members to become more technically proficient through participation in ED training workshops, through programs offered by various associations, and through in-service training sponsored by the institutions themselves.
- **Recognition** is an important way to let staff members know that the efforts they are making to establish and maintain the excellence of the financial aid operation are appreciated. Examples of ways to recognize staff include written commendations from school presidents or deans, award ceremonies, and announcements in school newsletters or newspapers.

STEP THREE—ASSESSING OPERATIONS

The Management Assessment Worksheets tools provided in this Planning Guide assist financial aid administrators to review administrative procedures against federal requirements, identify strengths and weaknesses of office operations, and begin to remedy areas of institutional vulnerability.

Institutions may, but are not required to use either of the worksheets discussed in this section. Other assessment documents or tools such as the Measurement Tools provided in EDExpress, NASFAA's Self-Assessment Guide, or a comparable quality assurance methodology or analysis may be used.

The Direct Loan Program Management Assessment (MA) Worksheet that follows consists of a set of questions to help users evaluate their readiness to implement direct lending without being overwhelmed by the process. This worksheet permits institutions to do very basic examinations of their operations. However, it does not constitute a comprehensive examination of institutional compliance and effectiveness for the entire Title IV system of which the Direct Loan Program is a part.

Institutions participating in ED's Quality Assurance Program are not required to complete the Direct Loan Program Management Assessment (MA) Worksheet or adopt any additional self-assessment tool other than the Assessment Worksheets prescribed by ED's Quality Assurance Program.

The expanded Title IV-Wide Management Assessment Worksheet appears in the Appendix of this *QA Planning Guide*. Institutions can use the worksheet to conduct a full-scale evaluation of their adherence to federal requirements. Institutions have the option of completing either the Direct Loan or Title IV-Wide version of the MA worksheet, the Measurement Tools provided in EDExpress, NASFAA's Self-Assessment Guide, or a comparable quality assurance methodology.

Users of this *QA Planning Guide* should note that no matter which assessment tool an institution chooses to complete, if handled as a structured problem-solving activity it becomes a powerful means to serve the interests of the students, the school, the financial aid staff, and the federal government.

Instructions for Completing the Management Assessment Worksheets

Institutions should review the following Management Assessment Worksheet to ensure that key processes are in place in order to effectively integrate the Direct Loan Program. In completing the Management Assessment:

1. **Identify** institutional staff members to serve on Management Assessment team(s). Teams can be assigned at various stages of the Management Assessment process and can be grouped to address specific program areas (such as student eligibility) or functional areas (such as database management).
2. **Have team members review the Title IV provision** or procedure that is specified in the first column, "Major Functional Requirements," and determine if institutional procedures are available and if they fully address requirements. Indicate whether the step is initiated or completed. (For further information or clarification, consult cited statutory and regulatory provisions, the Title IV-Wide Management Assessment Worksheet, and/ or the *Federal Student Financial Aid Handbook*.)
3. **Make a judgment about the effectiveness** of the institution's existing procedures and practices and determine areas that need improvement.

4. **Determine the priority for implementing improvement actions** based on such factors as potential institutional liability, benefits, resources, and timing. Determine whether the improvement is required immediately, or will take more time to implement.
5. **Determine which activities** should be addressed first, and list them in order of priority using any form or format convenient for the institution. Then, the institution documents the priority list in the QA Master File.

On completing the Management Assessment Worksheet, institutions will have identified to lesser or greater degrees the areas of the financial aid operation that require further improvements. Through these activities, institutions become more aware of the extent to which they are complying with federal requirements.

Once institutions have completed the Management Assessment, they can proceed to Step Four. It has been designed to help institutions take action based on their findings. Note that institutions are not required to forward the Management Assessment Worksheet or any quality documentation regarding the assessment instrument it adopts to ED. However, it must maintain a copy of assessment documentation in its QA Master Files.

Direct Loan
Management Assessment Worksheets

A INSTITUTIONAL PARTICIPATION

As stewards of federal funds, institutions must meet certain eligibility standards to assure that Title IV funds are delivered to students accurately and effectively. In addition to overall Title IV program requirements, senior administrators should ensure that the following standards are fully addressed in order to effectively participate in the Direct Loan Program.

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Has your institution ensured that it is operating in accordance with the provisions stipulated in the signed Program Participation Agreement and Addendum? (HEA, §668.14, §685.300)	Review Direct Loan Addendum to the Program Participation Agreement	Financial Aid Director Senior Level Management	____ Completed ____ Initiated
Can your institution ensure that it awards financial aid only to students enrolled in courses meeting the requirements of an eligible program? §668.32	Review Accrediting Agency Approval of Program	Financial Aid Director Registrar	____ Completed ____ Initiated
Has the financial aid office or another entity within the institution been designated to coordinate all sources of assistance offered to students throughout your institution? §668.16	Prepare a list of all institutional offices with awarding authority	Financial Aid Director Senior Level Management	____ Completed ____ Initiated
Has your institution designated an adequate number of trained, capable personnel to administer the student aid programs? (§668.16) Consider whether: • appropriate staff (e.g., fiscal officers, registrar, financial aid counselors, clerical staff, work-study students) has been trained on new procedures, software, etc • new procedures are being disseminated as appropriate	Review Staffing Levels in conjunction with functional duties of the financial aid office.	Financial Aid Director Senior Level Management	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does you institution have a system of identifying and resolving discrepancies in SFA-related information? §668.16	Review Policies & Procedures Manual and test procedures in this area	Financial Aid Staff	_____ Completed _____ Initiated
Does you institution have an adequate system of internal checks and balances that, at a minimum, separates the function of authorizing payments and disbursing or delivering funds? §668.16	Review awards & disbursing authority	Financial Aid Office Fiscal Office	_____ Completed _____ Initiated
Does your institution have acceptable default rates? Default Management Plan?	Review default prevention measures	Financial Aid Staff	_____ Completed _____ Initiated
Does your institution meet financial responsibility requirements? §668.15, §668.171-175,	Review areas of financial responsibility	Financial Aid Director Fiscal Office Senior Level Management	_____ Completed _____ Initiated
Does your institution meet administrative capability requirements? §668.16	Review areas administrative capability	Financial Aid Staff Fiscal Office Staff Registrar Office Staff	_____ Completed _____ Initiated
Does your institution participate in all electronic processes that are required by the Department, if the processes are provided at no substantial charge to the institution? November 29, 1996 regulations; Project EASI initiative.	Review 11/29/96 regulations for compliance	Financial Aid Director Computer Specialist Senior Level Management	_____ Completed _____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does your institution have one definition of payment period that is applicable to all SFA Programs, except FWS? November 29, 1996 regulations; SFAH pgs 3-39 thru 3-44; Project EASI initiative	Review applicable regulation citation	Financial Aid Director Fiscal Officer	____ Completed ____ Initiated
Does every eligible program, including graduate programs, have a defined academic year that contains a minimum of 30 weeks of instructional time? §668.8	Review eligible programs against academic year definition	Financial Aid Director Registrar	____ Completed ____ Initiated
Does your institution contract only with eligible third-party servicers as defined by regulatory criteria? §668.25	Review third party servicer contracts against regulatory criteria	Financial Aid Director Senior Level Management Interested Staff	____ Completed ____ Initiated
Does your institution notify ED if it enters into a new contract with a third-party servicers or significantly modifies a contract with an existing third-party servicer, or a third-party servicer ceases to provide contracted services, goes out of business or files for bankruptcy? §668.25	Review notification requirements	Financial Aid Director Senior Level Management Interested Staff	____ Completed ____ Initiated

B. FISCAL MANAGEMENT

To effectively transmit funds from the federal government to Direct Loan recipients, institutions must have sound financial systems and procedures in place. By reviewing the institution's accounting practices against the following requirements, financial aid and fiscal administrators will help to ensure that key processes are in place to enable the timely and accountable management of Direct Loan Program funds.

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Are bank accounts into which ED transfers funds or the school deposits SFA funds, maintained in accordance with 668.163?	Review bank notification regarding account identification	Fiscal Officer Financial Aid Director	____ Completed ____ Initiated
Does the institution remit to ED any interest earned on Direct Loan, Pell Grant, FSEOG or FWS program funds that exceeds $250 per year? Or, does the institution meet one of the exceptions to interest-bearing account or investment account requirement? §668.163	Review interest earnings against 668.162 exceptions	Fiscal Officer Financial Aid Director	____ Completed ____ Initiated
Does the institution have standard procedures to ensure that it accounts accurately for the receipt and disbursement of all aid funds? §668.161, §668.163(d), §668.165	Review fiscal procedures	Fiscal Officer Financial Aid Director	____ Completed ____ Initiated
Does the institution maintain its financial records in accordance with recordkeeping requirements in 668.24?	Review fiscal procedures	Fiscal Office Staff Financial Aid Director	____ Completed ____ Initiated
Does your institution ensure that it only draws down funds to be disbursed within the time frame prescribed by the system you are using, e.g. advance payment or just-in-time payment methods? §668.162	Review drawdown determination procedures	Fiscal Office Staff Financial Aid Director	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does the institution monitor authorization amounts and ensure that cash draws reflect the amount the institution needs immediately for disbursements? §668.162	Review fiscal procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
Does the institution disburse Title IV funds on a payment period basis? §668.164	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
In addition to crediting a student's accounts, does the institution disburse SFA Program funds "directly" by one of the four methods outlined in §668.164?	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
If the institution has obtained voluntary authorization from the student or parent to hold excess funds (credit balances, does the institution maintain, at all times, cash in its bank account at least equal to the amount that it holds for students? §668.165	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
If a student or parent borrower rescinds authorization to hold excess funds, does the institution pay these funds within specified time frames?	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
Does the institution follow "early" and "late" disbusement rules contained in §668.164?	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
Does the institution follow "excess cash" provisions as outlined in §668.166?	Review procedures for excess cash determination and return of funds	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does the institution provide exit counseling for Direct Loan borrowers? §668.304 (Experimental Sites Exemption may apply if institution is participating in Ex Sites)	Review reconciliation procedures and DL reconciliation reports	Staff Assigned to Direct Loan Reconciliation activity	____ Completed ____ Initiated
Does the institution's treatment of excess loan proceeds comply with §685.303?	Review Exit Counseling Procedures. Pull random sample of 10 withdrawing/graduating students with Direct Loans	Staff responsible for this activity	____ Completed ____ Initiated
Does the institution's treatment of excess loan proceeds comply with §685.303?	Review procedures for return of excess Direct Loan proceeds	Fiscal Office Staff Financial Aid Staff	____ Completed ____ Initiated

C. RECIPIENT ELIGIBILITY

Institutions are charged by the federal government to ensure that Direct Loan applicants meet all of the required provisions to be considered for and to receive student financial aid. Reviewing the following areas will assist institutional administrators to determine if their institutional procedures are meeting general eligibility requirements for student financial aid recipients.

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does your institution have a system to verify that financial aid recipients meet all eligibility requirements in accordance with §668.32-39 of the Student Assistance General Provisions?	Review general student eligibility criteria	Financial Aid Office Staff Fiscal Office Staff Registrar Office Staff	____ Completed ____ Initiated
Does your institution ensure that the student who applies for a Direct Subsidized or Unsubsidized Loan is enrolled at least half-time as a regular student in an eligible program, and that Direct PLUS Loans are originated only for parents of such students? §685.200	Review procedures in view of applicable regulation	Financial Aid Office Staff Registrar Office Staff	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does the institution ensure that it does not originate Direct Loans for a students from both the Direct Loan and FFEL programs for attendance at the school for the same enrollment period? §685.100	Review procedures in view of applicable regulation	Financial Aid Staff Fiscal Office Staff	____ Completed ____ Initiated
Does the institution ensure that Direct Loans borrowers are not enrolled in a medical internship or residency program?	Review procedures in view of applicable regulation	Financial Aid Staff	____ Completed ____ Initiated
Does the institution ensure that a Direct Loan borrowers who have canceled a previous Direct Loan due to total and permanent disability has reestablished eligibility for a new loan in accordance with regulatory requirements? §685.200	Review procedures in view of applicable regulation	Financial Aid Staff	____ Completed ____ Initiated
Does the institution ensure that a Direct Loan borrowers who is in default, who have obtained federal student loans in excess of annual or aggregate loan limits, or who have received SFA overpayments has reestablished eligibility for a new loan in accordance with regulatory requirements? §668.32	Review procedures in view of applicable regulation	Financial Aid Staff	____ Completed ____ Initiated
For Direct PLUS loan applicants, has the institution established that the parent borrower is a student's biological or adoptive parent, or legal guardian? Or the spouse of a parent who remarries, if the spouse's income and assets would have been included on the student's FAFSA? §685.200	Review procedures in view of applicable regulation	Financial Aid Staff	____ Completed ____ Initiated
For Direct PLUS loan applicants, does the institution ensure that the parent borrower meet eligibility criteria outlined in §685.200?	Review procedures in view of applicable regulation	Financial Aid Staff	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does the institution ensure that it does not permit the Direct PLUS Loan applicant to borrow a Direct PLUS Loan and a FFEL PLUS loan for the same student for the se enrollment period at the school? §685.200(b)(i)	Review procedures in view of applicable regulation	Financial Aid Staff	____ Completed ____ Initiated
Does the institution ensure that Direct PLUS Loans are not given to parents who have adverse credit history unless the parent obtains an endorser with no adverse credit history or demonstrates extenuating circumstances? §685.200	Review procedures in view of applicable regulation	Financial Aid Staff	____ Completed ____ Initiated
Does your institution have a system for collecting all required student certifications and transcripts for students who previously attended another postsecondary institution? (§668.19, §668.32-33)	Review procedures in view of applicable FAT regulation and NSLDS	Financial Aid Staff Registrar Office Staff	____ Completed ____ Initiated
Is your institution in compliance with all applicable verification regulations found in §668.53 -668.60? (If you are a Quality Assurance Program (QAP) institution, see the QAP Workbook for exemptions).	Review procedures in view of applicable regulation Test a sample of files	Financial Aid Staff	____ Completed ____ Initiated
Has your institution established proper budgets/cost of attendance (COA) to use in determining students' need for federal aid programs? (HEA 1992)	Review procedures in view of applicable statute or SFA Handbook guidance	Financial Aid Staff	____ Completed ____ Initiated
Does your institution collect and maintain the data relevant to each student's application for federal aid (i.e., the ISIR)? §668.24	Review procedures in view of SFA Handbook & ISIR Guide guidance	Financial Aid Staff	____ Completed ____ Initiated

D. AWARD CALCULATION AND DISBURSEMENT

Financial aid administrators must be mindful of specific federal provisions that set parameters on the type, amount, timing, and sequence of financial aid awards to meet the financial need of Title IV recipients. The following are program-specific criteria that fiscal and financial aid administrators should review to ensure that their institutional procedures are aligned with Direct Loan Program parameters.

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does the institution determine Federal Pell Grant eligibility prior to award Direct Subsidized and Direct Unsubsidized Loans? §685.200	Review awarding procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution determine Direct Subsidized eligibility prior to awarding a Direct Unsubsidized Loan? SFAH, Chapter 11	Review awarding procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution calculate Direct Subsidized Loan eligibility in accordance with the statutory formula? SFAH, Chapter 11	Review awarding procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution calculate need for Direct Unsubsidized and Direct PLUS Loan with the statutory formula? SFAH, Chapter 11	Review awarding procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution ensure that any information it provides ED in connection with loan origination is complete and accurate in accordance with requirements contained in §685.301?	Review loan origination procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution conduct initial counseling prior to mg the first disbursement? §685.304	Review loan counseling procedures	Staff responsible for loan counseling	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Prior to disbursing SFA Program funds for any award year, does the institution notify a student of the amount of SFA Program funds the student and his or her can expect to received for each SFA Program and how the funds will be disbursed? §668.165	Review award notification procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution obtain signed and completed Direct Loan promissory notes from Direct Loan borrowers prior to disbursing the first disbursement of a Direct Loan? §685.201, §685.303	Review promissory note tracking procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution delay disbursement for first-year, first-time students who are subject to the 30 day delay provision? §668.164	Review disbursement procedures	Financial Aid Staff Fiscal Office Staff	____ Completed ____ Initiated
For the Direct Loan and FFEL Programs, does the notice indicate which funds are from a subsidized loan and which are from an unsubsidized loan? November 29, 1996 regulations	Review award notification procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution notify a borrower, who will not be paid directly by check, of his right to cancel the loan, at or close to the time the funds are actually disbursed and the debt incurred? §668.165	Review award notification procedures	Financial Aid Staff	____ Completed ____ Initiated
If the borrower wishes to cancel the loan, does the institution honor the request if it is received within the 14 day cancellation window? §668.165	Review loan cancellation procedures	Financial Aid Staff	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does the institution notify a borrower when a loan disbursement occurs and give the borrower the opportunity to replace credited loan proceeds with other funds? November 29, 1996 regulations	Review disbursement & loan notification procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution notify the borrower in writing or electronically whenever it credits the student's account with Direct Loan, FFEL, or Perkins Loan program funds? Within specified timeframes? §668.165	Review disbursement & loan notification procedures	Financial Aid Staff	____ Completed ____ Initiated
Does the institution obtain authorization from a student (or parent borrower) before • disbursing SFA funds by EFT to a bank account designated by the student? • using SFA funds to pay for allowable charges other than tuition, fees, room & board? • holding excess SFA funds (credit balances)? • applying SFA Program funds to prior-year charges? §668.165	Review disbursement & loan notification procedures	Financial Aid Staff	____ Completed ____ Initiated
Unless a student is eligible to receive a late disbursement, does the institution disburse SFA Programs funds to a student or parent for a payment period only if the student is enrolled for classes for the payment periods eligible to receive those funds? §668.164	Review disbursement procedures	Financial Aid Staff	____ Completed ____ Initiated
If the institution disburses Direct Loans to student accounts, does the institution first use Direct Loan funds to pay for outstanding allowable charges? 685.165 SFAH 3-64 & 3-65	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does the institution pay any credit balance that was created by SFA Program funds to the student within specified timeframes? §668.165	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
Does the institution obtain voluntary authorization from the student or parent to hold excess funds (credit balances)? §668.165	Review borrower authorization procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
If so, does the institution identify the student or parent and the amount of funds the school holds for the student/parent in a subsidiary ledger account designed for that purpose? §668.165	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
If so, does the institution maintain, at all times, cash in its bank account at least equal to the amount that it holds for students? §668.165	Review cash management policies	Fiscal Officer Financial Aid Director	_____ Completed _____ Initiated
Notwithstanding any authorization obtained from a student or parent to hold excess funds, does the institution pay excess funds in accordance with timeframes specified in 668.164?	Review disbursement procedures	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated
Does the institution follow requirements in §668.164 regarding use of SFA Program funds to pay prior year charges?	Review applicable regulation citation to determine compliance	Fiscal Office Staff Financial Aid Staff	_____ Completed _____ Initiated

E. REPORTING AND RECONCILIATION

As with other business operations, institutions must maintain record systems that are auditable and that allow for preparation of appropriate reports. Also, procedures must be in place to allow for reconciling accounts and adjustments made to awards due to changes in areas such as the student's enrollment status or the family's financial circumstances. To ensure that the reconciliation of institutional and individual financial aid accounts is being handled appropriately, the following baseline criteria should be carefully reviewed.

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does your institution have standard procedures for adjusting disbursements as a result of verifying data, resolving conflicts, changes in student status, or receipt of additional aid? §668.16, §668.59	Review awarding procedures	Financial Aid Staff	____ Completed ____ Initiated
Does your institution properly document changes in students' dependency status or other changes involving professional judgment on a case-by-case basis?	Review awarding procedures	Financial Aid Staff	____ Completed ____ Initiated
Is your institution's refund formula fair and equitable, allowing for the most beneficial treatment for the student in accordance with §668.22?	Review refund policies and procedures	Financial Aid Staff and/or Fiscal Office Staff	____ Completed ____ Initiated
Are refund determinations made in accordance with regulatory requirements? §668.22	Review refund policies and procedures	Financial Aid Staff and/or Fiscal Office Staff	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does your institution have a system to ensure that refunds are made within required time frames and credited to the appropriate Title IV accounts in accordance with the refund distribution order as specified in §668.22? Consider: • procedures to ensure proper/timely returns to ED/Federal Reserve Bank of undisbursed funds drawn down • procedures for processing loan and disbursement cancellations • procedures for calculating and reconciling refund amounts	Review refund policies and procedures	Financial Aid Staff and/or Fiscal Office Staff	_____ Completed _____ Initiated
Does your institution reconcile Title IV disbursement records (general ledger/journal of expenditures) to other data sources (e.g., authorization levels, EDPMS 272 Reports (GAPS), FISAP, and Student Payment Summary Reports) and maintain verifiable, auditable data in support of these records? §685.309	Review reconciliation procedures	Financial Aid Staff and/or Fiscal Office Staff	_____ Completed _____ Initiated
Does the institution initiate data matching (reconciliation) with the Loan Origination Center system within specified time frames? Direct Loan School Guide	Review Direct Loan Reconciliation procedures and reports	Financial Aid Staff and/or Fiscal Office Staff	_____ Completed _____ Initiated
Does the institution process Direct Loan cancellations and adjustment in accordance with established criteria? Direct Loan School Guide	Review Direct Loan cancellation and adjustment procedures	Financial Aid Staff and/or Fiscal Office Staff	_____ Completed _____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Does your institution verify that accurate information on student status (SSCR) is reported to ED for Direct Loan borrowers? §665.309; Direct Loan Guide Consider: • procedures for timely, accurate review of Student Status Confirmation Report and updating enrollment information with servicer	Review Direct Loan SSCR procedures	Financial Aid Staff and/or Fiscal Office Staff	____ Completed ____ Initiated
Has the institution identified the appropriate level and type of automation to best meet its needs in administering the Direct Loan Program? Consider: • use of ED-supplied software or other software • entering data through EDExpress or other system • in-house production or servicer production of applications and promissory notes • entering PLUS application data by institution or other method • Student Status Confirmation Reports generated electronically	Review automation requirements	Financial Aid Director Fiscal Officer Computer Specialist Senior Level Management	____ Completed ____ Initiated

Requirements	Recommended Assessment Steps	Recommended Assessment Offices	Status
Has your institution put in place disbursement procedures for Direct Loans as required by §445 of the HEA, as amended? Consider: • procedures for timely transmission of the loan origination record to the servicer • procedures to resolve rejects that do not pass servicer edits	Review Direct Loan requirements in DL School Guide	Financial Aid Staff and/or Fiscal Office Staff	____ Completed ____ Initiated
Does your institution have a procedure to ensure that Direct Loan promissory notes are properly safeguarded against the risk of loss or destruction prior to their transmission to the Direct Loan servicer? §685.309, §685.301 Consider: • procedures to ensure timely transmission of hard copy promissory notes to the ED servicer • tracking procedures (if/when returned from borrower; date sent; servicer confirmation)	Review Direct Loan requirements in DL School Guide	Financial Aid Staff and/or Fiscal Office Staff	____ Completed ____ Initiated

STEP FOUR—TAKING ACTION

In the process of completing Assessment activities, institutions will identify those areas of their operations that require further improvements. Plans are then be developed for implementing new or enhanced procedures and improved levels of compliance to legislative requirements. The Management Action Plan Worksheet that follows can assist institutions to plan these activities and monitor progress. Each institution may establish its own methods for creating and carrying out changes that improve existing systems by taking into account available resources and office capabilities.

Instructions for Completing the Management Action Plan

During Step Three's Management Assessment, an institution decides which areas to target for improvement. Whether an institution decides to use the Management Action Plan Worksheet or another approach, the following steps may be taken in developing process improvements.

1. **Identify institutional staff members to serve on Management Action Planning task teams**. The composition of each task team should reflect the area(s) designated for near-term improvement to which the team is assigned.
2. **Describe the area to be improved** at the top of the Worksheet where it states "Description of Area Requiring Improvement," and include the corresponding question from the Management Assessment Worksheet next to "MA Ref."
3. **Identify the actions necessary to promote improvement** and list these actions in the first column under "Action Item."
4. **Summarize the resources necessary for each Action Item** in the second column, "Resources Needed," by listing resources (such as computer hardware/software and additional personnel) necessary to successfully implement a specific action item.
5. **Decide who would be the best individuals to assure that each action item** is carried out and what the time frame should be. Record the information in the first column under "Proposed" in the "Person(s) Responsible" column.
6. **Decide when implementation of each action item** is expected to begin and end in the columns under "Pro- posed" entitled "Start Date" and "End Date."
7. **Develop a monitoring process** and document it at the bottom of the worksheet next to "Description of Monitoring Procedures." For example, the task team as a whole could be responsible for overseeing that progress is being made with each action item, or individual members could be assigned to specific action items by staying in contact with the people who have direct responsibility for implementing the changes.
8. **Record changes to the plan as part of the monitoring process** by noting in the appropriate columns under "Actual" modifications to action items, person(s) responsible, and start and end dates.

As institutions plan and implement improvement activities, they file their Management Action Plan Worksheet(s)—or the materials they developed to document the actions they are taking—in their QA Master File. Note that institutions are not required to forward these materials to ED.

MANAGEMENT ACTION PLAN WORKSHEET

Description of Area Requiring Improvement:

MA Ref:

Action Item	Resources Needed	Proposed			Actual		
		Person(s) Responsible	Start Date	End Date	Person(s) Responsible	Start Date	End Date

Description of Monitoring Procedures:

STEP 5—REVIEWING PROGRESS

Any effective quality assurance system must be viewed as an ongoing, continuous process. Steps One through Four have assisted institutions with completing their assessments and improvements. In subsequent years, institutions will perform follow-up assessments that examine the effectiveness of their improvement initiatives and determine whether their administrative procedures remain effective in ensuring quality. These assessments will result in further initiatives to improve management systems.

The activities presented in this step have been developed to assist institutions to learn from the results of their initial self-assessment and problem-solving activities. These activities will also provide a baseline for more extensive measurement and analytical activities in subsequent stages of the QA initiative. They involve:

- continuous assessment and improvement activities;
- documenting progress in the QA Master File; and
- networking within the financial aid community.

Continuous Assessment and Improvement Activities

With the changing nature of regulatory issues, institutional characteristics, and technological capabilities, institutional officials continually assess and reassess office operations to help them prepare for future challenges. It is important that institutions participating in the Direct Loan Program regularly perform a management assessment and develop management improvement initiatives designed to correct problems, enhance operations, and strengthen management systems. At a minimum, institutions review their procedures for administering the Direct Loan Program, focusing particular attention on those areas in which changes were introduced by the institution or in which federal requirements have changed.

Institutions are encouraged, however, to expand over time the scope of the management assessments they perform. The Appendix offers a framework by providing a management assessment that is Title IV-wide in scope.

Completing the entire assessment as described in the Appendix in one year might not be feasible for all institutions. For this reason, the assessment is divided by functional areas. Institutional administrators may select those areas of the assessment they believe are most relevant for their institutions. Completing the entire Appendix will help determine whether an institution is in compliance with key requirements of the federal student financial assistance programs.

Networking within the Financial Aid Community

A major focus of the QA initiative is to involve all Direct Loan institutions—working together as partners with ED—to continually enhance the delivery of the student financial aid programs. The QA networking approach has been designed to further this goal by providing a vehicle for Direct Loan institutions to share information on effective financial aid office management practices and to share recommendations with ED. Communicating with peers is an important element of the QA system. Actively sharing successful practices with colleagues can help all financial aid administrators work more effectively.

Although networking is at the institution's option, its purpose is to help Direct Loan institutions develop a common awareness of quality improvement principles and to learn about effective ways to administer student aid. To expedite networking, information will be disseminated to all participating Direct Loan institutions through the Information for Financial Aid Professionals (IFAP) web site and the Direct Loan web site at www.ed.gov.DirectLoan.

The following are an initial set of activities planned for the Direct Loan QA networking process. ED will provide leadership and technical assistance in getting the networking process started; however, institutions are encouraged to eventually establish "partnership" forums, task teams, and steering committees to work alongside ED in improving the administration of student financial aid.

Sharing Successful Office Practices

On an ongoing basis, or at least once a year, institutions should submit to the network a successful activity describing a significant achievement in improving the institution's delivery of financial aid that came about as a result of implementing a quality assurance system. Participating Direct Loan institutions are encouraged to review their office operations and determine which areas are successful in terms of office practices, work processes, and management approaches. Some examples of effective office practices might include:

Office Coordination

- Establishing a comprehensive master calendar
- Interacting regularly with the admissions, registrar's, and business offices
- Integrating computer systems with financial aid operations
- Packaging and disbursing financial aid
- Monitoring work-study earnings

Correspondence Control

- Maintaining updated office procedures/manuals
- Developing useful office forms and standard correspondence
- Collecting necessary data and documentation
- Completing financial aid transcripts
- Maintaining effective filing, retrieval, and storing systems

Student Services

- Providing up-to-date student consumer information and financial aid handbooks
- Conducting responsive appointment scheduling and counseling services
- Establishing responsive phone systems
- Providing full one-stop services to aid recipients
- Conducting effective entrance and exit loan counseling

Submissions should be provided as an abstract with a narrative of the activities and benefits achieved. Please identify a point of contact in case further information or clarification is needed. A suggested format follows:

1. Identify a successful practice or activity that is being conducted at your institution.
2. Briefly describe the nature of your financial aid office operations and how this activity has been successfully implemented at your institution.
3. Explain the major benefits achieved and lessons learned in implementing this activity.

Recommendations for ED Quality Improvements

ED is also interested in making improvements to the Direct Loan Program. As a result, at the institution's option, financial aid administrators and quality assurance team members are encouraged to convey their ideas or suggestions for improvements in ED policy or operations. This can be done either in writing or through the planned electronic mail bulletin board. This information will be shared with appropriate ED offices and contractors for review with the goal of improving overall delivery processes. A suggested format for recommendations follows:

1. Provide both a brief description of an existing ED activity that you feel should be improved and your recommendation for improvement.
2. Describe an existing ED Title IV regulatory requirement that you feel should be modified or eliminated—consistent with legislative intent—and how this would improve student financial aid delivery at institutions.

Direct Loan institutions can play vital roles in establishing effective practices that promote continuous improvement in administering financial aid operations and providing services to students. Through networking opportunities, institutional officials can share their ideas with colleagues on successful office practices that are responsive to student circumstances, problems, and needs without adding burden to financial aid staff. As the Direct Loan Program expands and evolves, it is hoped that high-quality financial aid practices will be adapted to all Title IV programs and shared among institutions nationwide.

APPENDIX
TO THE DIRECT LOAN
QUALITY ASSURANCE PLANNING GUIDE

TITLE IV-WIDE MANAGEMENT ASSESSMENT
TECHNICAL ASSISTANCE DOCUMENT

TITLE IV-WIDE MANAGEMENT ASSESSMENT

Even though institutions must comply with a common body of Title IV requirements, administrative procedures can vary widely depending on an institution's size, student population, resources, funding policies, and facilities. As a result, financial aid administrators have traditionally developed procedures that take both federal requirements and their institution's character into account. Recognizing this need for institutional discretion, ED has developed a comprehensive Management Assessment document for the use of postsecondary institutions that summarizes key technical previsions of the Title IV Programs.

The Management Assessment has been designed to help financial aid administrators evaluate the full scope of their delivery systems and office procedures in the context of federal student aid requirements. It has been developed in conjunction with members of the financial aid community and has originated from a similar self-assessment instrument used by institutions participating in the Quality Assurance Program. Financial aid administrators who have followed this method have expressed strong support for the structured approach provided in the Management Assessment. They generally agree that using the Management Assessment helps them comply with Title IV regulations and develop improved operations tailored to the capabilities of their institutions and the needs of the students they serve.

The federal provisions within the Management Assessment are presented in five broad categories that highlight the major functional processes of the student financial aid delivery system between ED and institutions. Direct Loan institutions are encouraged, but not required, to complete this assessment to strengthen their management practices and administrative procedures as they deem necessary. Those institutions electing not to perform the Title IV-Wide Management Assessment must, as an alternative, complete the abbreviated Direct Loan Management Assessment Worksheet in Step Three of the *QA Planning Guide*.

Institutional Participation: As stewards of federal funds, institutions must meet certain eligibility standards to assure that Title IV funds are delivered to students accurately and effectively.

Fiscal Management: To effectively transmit funds from the federal government to Title IV recipients, institutions must have sound financial systems and procedures in place.

Recipient Eligibility: Institutions are charged by the federal government to ensure that Title IV applicants meet all the required provisions to be considered for and to receive student financial aid.

Award Calculation and Disbursement: Financial aid administrators must be mindful of specific federal provisions that set parameters on the type, amount, timing, and sequence of financial aid awards to meet the financial need of Title IV recipients.

Reporting and Reconciliation: As with other business operations, institutions must maintain record systems that are auditable, that allow for preparation of appropriate reports, and that allow for reconciling accounts and adjustments made to financial aid awards.

TITLE IV-WIDE
MANAGEMENT ASSESSMENT WORKSHEET

A. INSTITUTIONAL PARTICIPATION

Major Functional Requirements		Inventory of Existing Procedures		Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Determining Institutional and Program Eligibility 1. Is your institution currently accredited by a nationally recognized accrediting agency that is approved by the Secretary of Education, and are all the programs for which federal aid is offered included in that accreditation?					
2. Is your institution currently licensed to operate within a state in accordance with §600.4 - 600.7, and are all of the programs for which federal aid is offered included in that approval?					
3. Has your institution ensured that it is operating in accordance with the provisions stipulated in the signed Program Participation Agreement? (HEA and §668.12)					
4. Can your institution ensure that it awards financial aid only to students enrolled in courses meeting the requirements of an eligible program?					
5. Does your institution confirm, on an annual basis, that the duration of your academic year meets the minimum requirements? (HEA 1992)					
6. If your institution does not offer a 2-year associate or 4-year bachelor degree program, have you determined that no more than 50 percent of your students were admitted under the Ability to Benefit (ATB) provisions? (HEA 1992 §484(d))					

A. INSTITUTIONAL PARTICIPATION (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Determining Institutional and Program Eligibility (continued) 7. For all students in a given course of study, does your institution use the same academic year definition, and does each such definition incorporate at least 30 weeks? (HEA 1992)					
8. If your institution offers educational programs at locations other than your main campus, does it have written confirmation from ED's Institutional Participation Division as evidence of approval for Title IV funding? (§600.21)					
9. If your institution offers courses by correspondence, has it determined that no more than 50 percent of its courses are offered by correspondence or that no more than 50 percent of its students are enrolled in correspondence courses?					
10. If your institution offers programs to incarcerated students, has it determined that no more than 25 percent of its enrolled students are incarcerated or has it received a waiver of this prohibition from the Secretary of Education? (HEA 1992)					
Coordinating Major Financial Aid Responsibilities 11. Has the financial aid office or another entity within the institution been designated to coordinate all sources of assistance offered to students throughout your institution?					
12. Has your institution designated an adequate number of trained, capable personnel to administer the student financial aid programs? (§668.14)					

A. INSTITUTIONAL PARTICIPATION (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Coordinating Major Financial Aid Responsibilities (continued) 13. Does your institution have a system to coordinate all information relating to students' eligibility to participate in the Title IV programs?					
14. Does your institution have valid consortium agreements that contain all required provisions for all applicable students? (§600.9)					
15. Does your institution monitor the default rates under the Perkins and Part B Loan programs and initiate action if those rates approach 20 percent? (§668.15)					
16. Does your institution have a plan for default management, and is it being implemented in all respects?					
17. Is there an office responsible for calculating and monitoring the institution's student withdrawal rate and initiating appropriate action if that rate approaches 33 percent? (§668.15)					
18. Has the institution identified all affected institutional components and assigned responsibility for implementing, prior to and during academic year 1996-97, a quality assurance system that will satisfy ED requirements? (§454(a)(5) HEA)					
Disclosing Information on Title IV Participation 19. Does your institution publish all of the consumer information required by §668.43 and 668.44?					

A. INSTITUTIONAL PARTICIPATION (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Disclosing Information on Title IV Participation (continued) 20. Does your institution routinely make available the written consumer information and disclosures to all current and prospective students? (§668.41 and 668.42)					
21. Are the Satisfactory Academic Progress (SAP) standards and procedures by which a student who has failed to maintain progress and who may re-establish eligibility for Title IV assistance published and readily available to all students? (§668.14)					
22. Does your institution have a standard of Satisfactory Academic Progress (SAP) that contains all of the elements required under §668.14, can the SAP standard be easily applied, and is it clear enough to be understood by your staff and students?					

B. FISCAL MANAGEMENT

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Establishing Accounting Systems 1. Does your institution have a system to ensure that federal funds are used only for program purposes?					
2. Has the institution reviewed its debtor position to determine if it meets all of the standards for financial capability (§668.13) and is in compliance with §453(c)(2)(G) HEA?					
3. Are separate offices and individuals responsible for awarding aid and disbursing funds?					
4. Does your institution have standard procedures to ensure that it accounts accurately for the receipt and disbursement of all aid funds?					
5. Does your institution ensure that it only draws down funds to be disbursed within the time frame prescribed by the system you are using?					
6. Does your system allow you to identify by program the amount of federal cash at your institution at any given time?					
7. Can your institution ensure that it does not charge fees of any kind to promote, originate, or administer federal aid programs? (§454(a)(6) HEA)					
Coordinating Program-Specific Funds 8. Does your institution monitor authorization amounts and ensure that cash draws and expenditures are within those authorizations?					

B. FISCAL MANAGEMENT (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Coordinating Program-Specific Funds (continued) 9. Are federal funds deposited into accounts that are properly established and identified for this purpose?					
10. Does your institution properly calculate its Administrative Cost Allowance under the campus-based programs?					
11. Does your institution have a system to ensure that it is contributing the correct institutional match of program funds toward campus-based disbursements and that the institutional share is being provided within the appropriate time frames?					
12. Are all fund transfers with the campus-based programs within the allowable award year and program limits?					
Ensuring Adequate Auditing Practices 13. Does your institution have a procedure to ensure that your Title IV programs are audited annually by an independent agent and that the audit report is submitted to ED within the appropriate time frame.?					
14. Does your institution maintain an accessible audit trail for each transaction, allowing you to easily trace financial data that identify individual student disbursements and total aid awarded?					
15. Does your institution's system reconcile all Direct Loan Program activity that occurs during a 30-day period before the following 30-day period?					
16. Does your system easily identify excess cash (including interest earned on federal funds) and routinely and promptly return monies to program accounts or the appropriate federal department?					

C. RECIPIENT ELIGIBILITY

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Evaluating Student Eligibility 1. Does your institution have a system to verify that financial aid recipients meet all eligibility requirements in accordance with §668.7 of the Student Assistance General Provisions?					
2. Does your institution have a system to ensure that all financial aid recipients possess a high school diploma or equivalent or demonstrate the Ability to Benefit (ATB) from the training provided? (§668.7 and HEA 1992)					
3. Does your institution have a system to ensure aid is provided only to regular students (enrolled for the purpose of receiving a degree or certificate) unless exempted by the Higher Education Technical Amendments (HETA) or HEA 1992. (§668.7)					
4. Does your institution have a policy for granting "leaves of absence" and, if so, is there a procedure for determining if a student returns from leave? (§682.605)					
5. Does your institution have a system to ensure that Title IV financial aid is provided only to students in an eligible citizenship category and to identify eligible noncitizens for whom documentation is required? (§668.7)					
Collecting Required Documentation and Verifying Data 6. Does your institution collect and maintain the data relevant to each student's application for federal aid (i.e., SAR, ESAR, or ISIR)?					

C. RECIPIENT ELIGIBILITY (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Collecting Required Documentation and Verifying Data (continued) 7. Does your institution have a system for collecting all required student certifications and statements?					
8. Does your institution have a system to identify the need for and collect all required financial aid transcripts for students who attended a prior postsecondary institution? (§668.19)					
9. Does your institution have a system for identifying or resolving conflicting information in accordance with §668.14?					
10. Is your institution in compliance with all applicable verification regulations found in §668.53 - 668.60? (If you are a Quality Assurance Program (QAP) institution, see the QAP workbook for exemptions.)					
Determining Cost of Attendance 11. Has your institution determined proper budgets or cost of attendance (COA) to use in determining student's need for federal aid programs? (HEA of 1992)					
12. Are costs of attendance properly calculated, prorated based on academic year length when necessary, and, if appropriate, adjusted for students who are studying abroad, incarcerated, or enrolled in correspondence courses?					
13. Does your institution have a COA policy ensuring that COAs are determined based on costs associated with credit/clock hours and costs associated with weeks of instructional time, and are prorated based on full-time, full-year costs?					

D. AWARD CALCULATION AND DISBURSEMENT

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Disbursing Pell Grants 1. Does your institution have a procedure to ensure that Federal Pell Grant disbursement amounts are calculated based on incorporating the 30-week minimum academic year and standards for weeks of instructional time and credit/clock hours earned? (HEA 1992)					
2. Does your institution use a nine-month expected family contribution (EFC) to determine a student's Federal Pell Grant?					
3. Does your institution have a system to ensure receipt of a valid SAR, ESAR, or official EFC on roster or tape (ISIR) while a student is still enrolled and eligible?					
4. Does your institution ensure that all Electronic SARs are signed by all required persons and that alternate eligibility output documents are signed by students to attest that the information reported has been reviewed and is accurate?					
5. Does your institution schedule Federal Pell Grant disbursements often enough so that no one disbursement exceeds half of the annual award (for example, in the case of a non-standard term that exceeds half of the academic year, at least two disbursements are scheduled during the term)?					
6. Does your institution have a system to ensure that Federal Pell Grant payments are properly reported to ED?					

D. AWARD CALCULATION AND DISBURSEMENT (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Disbursing Pell Grants (continued) 7. Does your institution have a system for monitoring student completion of the portion of a term for which he or she was initially paid, to ensure that subsequent disbursements within the term are not made until the portion previously paid for has, in fact, been completed?					
8. For non-term programs, does your institution have a system to ensure that midpoint disbursements are not made until the student has completed both the minimum weeks and clock/credit hours required in the payment period?					
9. Does your institution ensure that awards to incarcerated students, if eligible for Federal Pell Grants, are within appropriate maximums?					
Packaging Campus-Based Awards 10. Does your institution make campus-based aid reasonably available to all of the students represented in your FISAP Eligible Aid Applicant Grid (Part II, Section E), including students attending non-main campus locations?					
11. Are FSEOG funds first awarded to Federal Pell Grant eligible students with exceptional need (lowest EFC)?					
12. Are Federal Perkins Loan funds first awarded to students demonstrating exceptional need (lowest EFC)?					

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D. AWARD CALCULATION AND DISBURSEMENT (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Packaging Campus-Based Awards (continued) 13. For Federal Perkins Loan Program recipients, does your institution have procedures to determine borrower eligibility for forbearance, deferment, and cancellation provisions?					
14. Does your institution have procedures to ensure that due diligence is performed in accordance with requirements of Subpart C, §674.41 - 674.50 of the Federal Perkins Loan Program regulations?					
15. Does your institution have an adequate document control system to track and safeguard signed loan notes?					
16. Does your institution have a system to monitor Federal Work-Study (FWS) earnings and adjust subsequent awards or disbursements as necessary?					
17. Does your institution pay FWS earnings at least monthly?					
18. Does your institution have procedures to ensure that at least 5 percent of your FWS funds are paid to students in service to the community?					
Providing Federal Family Education Loans (FFEL) 19. Does your system ensure that information provided and certified on student loan applications is accurate and complete?					
20. Does your institution determine a student's eligibility for a Federal Pell Grant prior to certifying him/her for an FFEL loan?					

D. AWARD CALCULATION AND DISBURSEMENT (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Providing Federal Family Education Loans (FFEL) (continued) 21. Prior to certifying an unsubsidized Federal Stafford loan for a student, do you make a determination of eligibility for a subsidized loan?					
22. Does your institution have standard procedures to notify a student in writing if you decline to certify a loan?					
23. Does your institution have a system to ensure that the first payment of a Federal Stafford loan or an unsubsidized Federal Stafford loan made to a first-year, first-time undergraduate student is not released until the borrower has completed the first 30 days of his/her program of study?					
24. Does your institution have a procedure for ensuring that students are provided with all of the information stipulated in the entrance and exit interview requirements of the federal loan programs? (§682.604)					
25. During exit counseling, does your institution have a procedure to ensure that you obtain required or updated information from the borrower in accordance with requirements stipulated in the HEA of 1992?					
26. Does your institution have a procedure established so that students may obtain loans under any state-sponsored or private loan program to offset the EFC? (§454(a)(1)(B) HEA)					
Awarding Federal Direct Student Loans 27. Has the institution defined financial aid awarding procedures for use during the 1996-97 academic year for student and parent borrowers? (§454(a)(4) HEA)					
28. Has your institution put in place disbursement procedures for Direct Loans as required by §455(j) of the HEA as amended?					
29. Does your institution have a system to ensure that a properly executed promissory note is obtained from a Direct Loan borrower prior to releasing any loan proceeds to the student?					
30. Has the institution identified the appropriate level and type of automation to best meet its needs in administering the Direct Loan Program?					
31. If you do not originate loans under the Direct Loan Program, have you assigned responsibility and defined procedures for forwarding to ED all student eligibility data needed for alternative loan origination? (§454(a)(1)(E) HEA)					

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E. REPORTING AND RECONCILIATION

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Adjusting Awards 1. Does your institution have standard procedures for adjusting disbursements as necessary as a result of verifying data, resolving conflicts, changes in student status, or receipt of additional aid?					
2. For changes in a student's projected enrollment status, does your institution have a policy to determine if Federal Pell Grant awards must be recalculated that takes changes in COA into consideration and is applied consistently to all students?					
3. Does your institution have standard procedures for reporting changes in awards to the student, the central processor, and other institutional offices as appropriate?					
4. Does your institution maintain documentation of adjustments made to data elements used to calculate the cost of attendance (COA) or the expected family contribution (EFC)?					
5. Does your institution properly document changes in students' dependency status or other changes involving professional judgement on a case-by-case basis?					
Providing Title IV Refunds 6. For the purpose of refunding Title IV funds, does your institution have a procedure in place to identify students who register but never attend classes so that financial aid that has been disbursed/credited to the students' accounts can be returned?					

E. REPORTING AND RECONCILIATION (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Adjusting Awards Providing Title IV Refunds (continued) 7. For the purpose of determining when a refund must be paid, does your institution have a system for determining a student's last day of attendance? (§682.605)					
8. Is your institution's refund formula fair and equitable, allowing for the most beneficial treatment for students in accordance with §484B of the HEA?					
9. Do your institution's internal controls ensure that refund calculations are performed in a timely manner and are mathematically correct?					
10. Does your institution have a system to ensure that refunds are made within required time frames and credited to the appropriate Title IV accounts in accordance with the refund distribution order as specified in §485 of the HEA of 1992?					
11. Does your institution have procedures to ensure that the pro rata refund formula is used for all first-time students who withdraw prior to the 60 percent point in the term?					
12. Does your institution have a system for ensuring that credit balances are promptly delivered to students unless a student has voluntarily provided written authorization to the institution to retain those funds for future charges?					
13. Does your institution ensure, when determining the amount it is entitled to retain, that it excludes the unpaid balance owed by the student on the account in accordance with §668.22?					

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E. REPORTING AND RECONCILIATION (continued)

Major Functional Requirements	Inventory of Existing Procedures			Priority for Improvement Actions	
	N/A	No improvement action needed at this time	Improvement action needed	Near-term improvement required	Long-term improvement desired
Reporting and Recordkeeping 14. Does your institution reconcile Title IV disbursement records (general ledger/journal of expenditures) to other data sources (for example, authorization levels, EDPMS 272 Reports, FISAP, and Student Payment Summary Reports) and maintain verifiable, auditable data in support of these records?					
15. Does your institution's system facilitate the timely filing of all required program reports, such as EDPMS 272, Pell Grant IPS, and campus-based FISAP, and required audits and financial statements?					
16. Does your institution have a procedure to ensure that the FISAP is prepared properly and electronically submitted to ED by the stated deadline of each year?					
17. Does your institution verify that accurate information on student status is reported for all borrowers to ED or the appropriate guaranty agency? (§682.610 and §454(a)(1)(E) HEA)					

Direct Loans

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THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

Appendix E:
Title IV Electronic
Processes

School Guide

Appendix E: Title IV Electronic Processes

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Title IV Electronic Processes

Appendix E

Title IV Electronic Processes Requirements

Schools in the Direct Loan Program communicate electronically with the U.S. Department of Education (ED) and ED's Direct Loan contractors. Electronic capability is a requirement for participating in the program.

Minimum Electronic Processes for Schools

- Participating in the Title IV Wide Area Network (TIV WAN).
  - The TIV WAN enrollment document can be downloaded (in PDF format). See "Dear Colleague" Letter GEN 98-24 at **http://ifap.ed.gov**
- *For the 1998-99 processing year and beyond:*
  - receiving Institutional Student Information Records (ISIRs),
  - adding the school to the Central Processing System (CPS) Record, and
  - having online access to the National Student Loan Data System (NSLDS).
- Having access to ED's Information for Financial Aid Professionals (IFAP) Web site (**http://ifap.ed.gov**).
- Submitting the Application for Approval to Participate in Federal Student Financial Aid Programs (initial certification, recertification, reinstatement, and changes) through the Internet.
- Submitting the Fiscal Operations Report and Application to Participate (FISAP) through TIV WAN.
- *For the 1999-2000 award year and beyond:*
  - reporting Federal Pell Grant payments electronically through TIV WAN,
  - submitting Student Status Confirmation Report (SSCR) data electronically to NSLDS, and
  - submitting Federal Perkins Loan data electronically to NSLDS.

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Technical Specifications Required for Electronic Processing by Schools

Minimum Hardware Configuration for Schools

- IBM or fully IBM-compatible PC
- 200 MHZ Pentium processor or comparable
- 64 MB RAM
- 4.0 GB SCSI Hard Drive
- 56K Analog Modem
- 3.5-inch/1.44 MB Diskette Drive
- SVGA Monitor
- Windows 95 Keyboard
- Laser printer capable of printing on standard paper (8.5 x 11-inch)
- 12 x CD-ROM with sound board
  - Needed if school wants to use the EDExpress Tutorial and the AWARE software.

Minimum Software Requirements for Schools

- 32 bit operating system
- Windows 95, Windows 98, or Windows NT 4.x
- an Internet Service Provider (ISP)
- Netscape Navigator 3.0 or 3.01 (domestic), Explorer 4.0, Explorer 4.01 (with 5PA), or other Web browser
  - ED is testing other Web browsers that will be made available to the public in the near future.

Other Requirements for Schools

- Dedicated phone line
- 3.5-inch high density, double-sided diskettes

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School Guide

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